YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH AUDITOR'S REPORT

31 DECEMBER 2008

INDEPENDENT AUDITOR'S REPORT

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

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

Management's responsibility for the financial statements

2. 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

3. 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 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

4. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zeynep Uras, SMMM

Istanbul, 18 March 2009

YAPI VE KREDİ BANKASI A.Ş.

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YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of YTL unless otherwise indicated.)

	Note	2008	2007
ASSETS			
Cash and balances with central banks	6	4,717,016	3,740,388
Loans and advances to banks	7	3,310,548	1,607,523
Trading assets	8	396,464	315,530
Derivative financial instruments	9	433,651	50,351
Loans and advances to customers	10	42,469,983	31,846,331
Investment securities			
- Available-for-sale	11	1,886,091	1,039,899
- Held-to-maturity	11	12,705,781	13,003,287
Investment in associate	12	55,593	38,220
Goodwill	13	1,023,528	1,023,528
Other intangible assets	14	179,697	213,801
Property and equipment	15	1,215,588	1,148,731
Deferred income tax assets	22	509,850	492,263
Other assets	16	989,504	1,039,568
Total assets		**69,893,294**	**55,559,420**
LIABILITIES			
Deposits from banks	17	1,082,841	1,262,844
Due to customers	18	43,725,847	34,523,020
Other borrowed funds	19	9,652,438	7,306,943
Debt securities in issue	20	1,966,298	1,542,609
Derivative financial instruments	9	220,782	264,806
Financial liabilities designated at fair value	21	66,434	51,273
Current income taxes payable	22	8,339	10,570
Deferred income tax liabilities	22	201,922	132,463
Other provisions	23	377,235	301,149
Retirement benefit obligations	24	869,255	802,626
Insurance technical reserves	25	835,200	786,468
Other liabilities	26	3,847,688	3,507,975
Total liabilities		**62,854,279**	**50,492,746**
EQUITY			
Share capital and share premium	28	4,822,259	3,900,011
Other reserves	29	107,598	43,839
Retained earnings	29	2,065,235	829,603
Equity attributable to shareholders of the Parent		**6,995,092**	**4,773,453**
Equity attributable to minority interest		43,923	293,221
Total equity		**7,039,015**	**5,066,674**
Total liabilities and equity		**69,893,294**	**55,559,420**

The accompanying notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER
(Amounts expressed in thousands of YTL unless otherwise indicated.)

	Note	2008	2007
Interest income	30	7,736,732	6,548,688
Interest expense	30	(5,067,988)	(4,271,016)
Net interest income		**2,668,744**	**2,277,672**
Fee and commission income	31	1,839,536	1,486,052
Fee and commission expense	31	(334,276)	(334,782)
Net fee and commission income		**1,505,260**	**1,151,270**
Foreign exchange gains, net		106,278	122,760
Net trading, hedging and fair value income	32	38,198	19,047
Losses from investment securities, net	32	(35,574)	(17,749)
Insurance technical income, net		80,225	105,063
Other operating income		191,882	114,250
Operating income		**4,555,013**	**3,772,313**
Impairment losses on loans and credit related commitments, net	34	(423,218)	(321,794)
Provision for retirement benefit obligations	24	(83,674)	(118,727)
Other provisions	23	(253,158)	(229,431)
Other operating expenses	33	(2,112,246)	(1,902,979)
Operating profit		**1,682,717**	**1,199,382**
Share of profit of associate	12	3,667	1,890
Profit before income tax		**1,686,384**	**1,201,272**
Income tax expense	22	(316,416)	(237,677)
Profit for the year		**1,369,968**	**963,595**
Attributable to:			
Equity holders of the Bank		1,366,260	812,474
Minority interest		3,708	151,121
Basic earning per share attributable to the equity holders of the Bank (expressed in YTL per thousand share)		3.94	2.53

The accompanying notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of YTL unless otherwise indicated.)

		Attributable to equity holders of the Bank						
	Note	**Share capital**	**Share premium**	**Other Reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2007		**3,082,347**	**37,579**	**46,293**	**492,539**	**3,658,758**	**548,277**	**4,207,035**
Net change in available for sale investments, net of tax	29	-	-	7,372	-	7,372	291	7,663
Gains on hedges of a net investment in a foreign operation	29	-	-	11,249	-	11,249	-	11,249
Currency translation differences		-	-	(27,723)	-	(27,723)	(15,441)	(43,164)
Net income recognised directly in equity		-	-	(9,102)	-	(9,102)	(15,150)	(24,252)
Profit for the year		-	-	-	812,474	812,474	151,121	963,595
Total recognised income for the year		-	-	(9,102)	812,474	803,372	135,971	939,343
Effect of merged entities under common control	2.Q 27	-	-	8,742	(146,660)	(137,918)	137,918	-
Dividends paid		-	-	-	-	-	(77,740)	(77,740)
Issue of share capital		6,632	-	-	(6,632)	-	-	-
Purchase from minority interests	27	-	-	-	387	387	(2,351)	(1,964)
Effect of share exchange transaction	28	277,601	495,852	(2,094)	(322,505)	448,854	(448,854)	-
Balance at 31 December 2007		**3,366,580**	**533,431**	**43,839**	**829,603**	**4,773,453**	**293,221**	**5,066,674**
Net change in available for sale investments, net of tax	29	-	-	(9,689)	-	(9,689)	258	(9,431)
Gains on hedges of a net investment in a foreign operation	29	-	-	(57,440)	-	(57,440)	-	(57,440)
Currency translation differences		-	-	103,970	-	103,970	-	103,970
Net income recognised directly in equity		-	-	36,841	-	36,841	258	37,099
Profit for the year		-	-	-	1,366,260	1,366,260	3,708	1,369,968
Total recognised income for the year		-	-	36,841	1,366,260	1,403,101	3,966	1,407,067
Issue of share capital		920,000	2,248	-	(1,844)	920,404	-	920,404
Dividends paid		-	-	-	-	-	(1,450)	(1,450)
Transfer to statutory reserves				26,930	(26,930)	-	-	-
Purchase from minority interests	27	-	-	(12)	(101,854)	(101,866)	(251,814)	(353,680)
Balance at 31 December 2008		**4,286,580**	**535,679**	**107,598**	**2,065,235**	**6,995,092**	**43,923**	**7,039,015**

The accompanying notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of YTL unless otherwise indicated.)

	Note	2008	2007
Cash flows from operating activities			
Net profit		1,369,968	963,595
Adjustments for:			
Unrealised gain on trading assets, net		10,861	9,648
Allowances for losses on loans and advances	34	423,218	321,794
Measurement of derivative financial instruments at fair value		(427,324)	261,814
Share of profit of associate	12	(3,667)	(1,890)
Amortisation of other intangible assets	33	40,577	34,274
Depreciation of property and equipment	33	126,239	132,282
Impairment charge on property and equipment, net	33	1,841	(1,345)
Impairment charge on assets held for resale	33	522	5,566
Provision for current and deferred income taxes	22	316,416	237,677
Other provisions	23	253,158	229,431
Provision for retirement benefit obligations	24	83,674	118,727
Other liabilities		(915)	79,101
Unearned commission income		33,241	(5,398)
Add back dividend income		(41,553)	(3,335)
Interest income - net	30	(2,668,744)	(2,277,672)
Interest paid		(4,932,679)	(4,266,418)
Interest received		7,229,845	6,657,214
Translation difference	29	46,518	(9,872)
Cash flows from operating profits before changes in operating assets and liabilities		**1,861,196**	**2,485,193**
Changes in operating assets and liabilities:			
Net (increase) / decrease in cash balances with central banks		(454,446)	356,219
Net (increase) in loans and advances to banks		(633,039)	(336,034)
Net (increase) / decrease in trading assets		(91,795)	236,300
Net (increase) in loans and advances to customers		(10,518,233)	(7,048,954)
Net (increase) in other assets		(18,506)	(21,275)
Net (decrease) in deposits from banks		(307,505)	(366,847)
Net increase in due to customers		9,118,115	347,280
Net (decrease) in other liabilities and provisions		(201,333)	(420,988)
Income taxes paid		(236,878)	(232,042)
Net cash (used in) operating activities		**(1,482,424)**	**(5,001,148)**
Cash flows from investing activities			
Purchase of property and equipment	15	(189,967)	(108,650)
Proceeds from the sale of property and equipment	15	26,792	81,545
Purchase of intangible assets, net	14	(36,992)	(68,824)
Purchase / increase in held-to-maturity securities	11	(2,059,187)	(2,687,060)
Redemption of held-to-maturity securities	11	1,882,322	6,648,239
Redemption / (purchase) of available-for-sale securities, net		(892,051)	(371,728)
Dividends received		41,553	3,335
Disposal of investments, net		(6,373)	84,121
Net cash (used in) / from investing activities		**(1,233,903)**	**3,580,978**
Cash flows from financing activities			
Proceeds from borrowed funds, net		3,311,677	9,249
Issue of ordinary shares		922,248	-
Dividend paid to minority		(1,450)	(77,740)
Net cash from financing activities		**4,232,475**	**(68,491)**
Net increase / (decrease) in cash and cash equivalents		**1,516,148**	**(1,488,661)**
Cash and cash equivalents at beginning of the year	5	2,037,096	3,525,757
Cash and cash equivalents at end of the year	**5**	**3,553,244**	**2,037,096**

The accompanying notes set out on pages 5 to 88 form an integral part of these consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

Yapı ve Kredi Bankası A.Ş. ("YKB" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on 9 September 1944 as a private capital commercial bank, authorised to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its corporation. The Group provides retail, corporate, private, credit cards, leasing, factoring and investment management services. The Group has operations in Turkey, Netherlands, Azerbaijan and Russia.

The Group's immediate parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCI") and Koç Group. KFS was established as financial holding company on 16 March 2001 to combine Koç Group financial services companies under one organisation. As of 22 October 2002, Koç Group established a strategic partnership with UCI over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of 31 December 2008 18.20% shares of the Bank are publicly traded (2007: 18.21%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on London Stock Exchange.

At 31 December 2008, the Group has 17,359 employees (2007: 16,779 employees). The Bank has 860 branches operating in Turkey and 1 branch in off-shore region (2007: 675 branches operating in Turkey, 1 branch in off-shore region and 1 representative office) and 14,795 employees (2007: 14,249 employees).

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

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2009.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation

The consolidated financial statements are based on the historical cost convention, as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities categorised as at fair value through profit or loss and all derivative contracts.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the standard will have on segment disclosures in the Group's financial statements.

Puttable financial instruments and obligations arising on liquidation—IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect the amendment to affect its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008);
- IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

B. Consolidation

(a) Subsidiaries

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

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

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

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

(b) Associates

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The details of the associate at 31 December 2008 and 2007 are as follows:

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

(c) Transactions and minority interests

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

(d) Fund management

The Group manages and administers open-ended mutual funds and private pension funds. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in Note 39.

C. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in YTL, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Group companies

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

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

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

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

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

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

D. Related parties

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

E. Due from other banks

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

G. Investment securities

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

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

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

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

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

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

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

H. Sale and repurchase agreements

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Loans and advances to customers

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

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

J. Impairment of financial assets carried at amortised cost

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

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

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

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

K. Derivative financial instruments

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

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. The fair value of over-the-counter ("OTC") forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2008. The difference between the spot rate at the time of origination and the original forward rate (for matured contracts) and the original forward rate discounted to balance sheet date (for outstanding contracts) is reclassified to interest income or expense.

L. Hedge accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net investment hedge

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

Fair value hedge

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

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

M. Property and equipment

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

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

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

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

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

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

Leasehold improvements comprise primarily the capitalised branch refurbishment costs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Other intangible assets

(i) Computer software

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

(ii) Trademarks and customer relationships related intangibles

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

(iii) Other intangible assets

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

O. Accounting for leases

(i) Group company is the lessor

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

(ii) Group company is the lessee

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Business combinations and goodwill

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

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

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

Q. Business combinations involving entities under common control

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

R. Impairment of assets

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

S. Financial liabilities

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

T. Income taxes

(i) Income taxes currently payable

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

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

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

(ii) Deferred income taxes

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

U. Retirement benefit obligations

(a) Pension benefits transferable to Social Security Institution ("SSI")

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

	2008		2007	
	Employer (%)	Employee (%)	Employer (%)	Employee (%)
Retirement benefit contributions	13.5	9	13.5	9
Medical benefit contributions	6	5	6	5

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

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

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

(b) Reserve for employment termination benefits

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Provisions, contingent assets and contingent liabilities

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

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

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

Uncertain tax positions

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

W. Interest income and expense

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

X. Fee and commission income and expense

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

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

Y. Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

Z. Acceptances

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

AA. Other credit related commitments

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AB. Offsetting

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

AC. Cash and cash equivalents

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

AD. Insurance business

(i) Premium Income

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

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

(ii) Claims

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

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

(iii) Unearned Premium Reserve ("UPR")

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

(iv) Deferred Acquisition Costs ("DAC")

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Life Mathematical Reserves

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

(vi) Life Profit Share Reserve

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

(vii) Provision for Unexpired Risks:

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

(viii) Liability Adequacy Test

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

(ix) Liability to Pension Contract holders for Loyalty Reward

The Group’s subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group’s subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. Loyalty criteria is “till retirement” instead of “10 years” for the contracts issued after 9 August 2008. The present value of such liability is calculated using the long term real interest rate of 6.26% and the persistency rate of pension contract holders.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AE. Segment Reporting

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

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

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

AF. Earnings per share

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

	2008	2007
Profit attributable to equity holders of the Bank	1,366,260	812,474
Weighted average number of ordinary shares in issue (thousand)	346,538,433	320,573,075
Basic earning per share (expressed in YTL per 1,000 share)	**3.94**	**2.53**

AG. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the 31 December 2008 consolidated financial statements.

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

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by YTL223,331 thousand (2007: increase by YTL181,042 thousand), with a corresponding entry in the fair value reserve in equity (Note 4.E).

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

Impairment losses on loans and advances. The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated YTL58,239 thousand (2007: YTL71,833 thousand) higher or lower. The Group calculated IBNR provision which combines the Basel II concept of expected loss with intrinsic elements such as loss detection period and expert views. As a result of the studies performed, the Bank revised the IBNR provisions by considering new loss detection periods, which were formerly set as 1 year, differentiating them by segment/type of products. To the extent that loss detection period decreases by 3 months, the IBNR provision would be estimated around YTL164,000 thousand (2007: YTL140,000 thousand) lower.

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

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

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

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

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

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk

The Group manages credit risk through the following implementations:

(a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;

(b) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;

(c) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);

(d) evaluation of new credit products, changes to existing ones and monitoring them so as to ensure that their profile is coherent with the risk appetite and reputation risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, workout procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);

(e) enhancement and monitoring of the rating and scoring models (probability of default (“PD”), exposure at default (“EAD”) and loss given default (“LGD”)) as well as pricing models for all segments. This includes:

- methodological documentation,
- technical specification for IT implementation and support to local use,
- definition of process guidelines regarding models usage and use tests,
- validation,
- definition of rating override process,
- definition of credit data warehouse,
- cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk (“VaR”) model development and calculation.

(f) preparation of credit risk budget in line with predefined lending targets,

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

(h) definition of provisioning methodologies in line with BRSA and IFRS.

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(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

Bank Rating System:

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

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

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

		Concentration level (%)	
	Rating class [1]	**2008**	**2007**
Above average	1-4	32.7	20.2
Average	5+ - 6	48.3	53.6
Below average	7+ - 9	19.0	26.2

(1) For corporate and commercial clients only

Scoring models are also used throughout the granting and monitoring/collection processes for consumer loans and credit cards segment. These models are to be developed and updated in accordance with changes in customer behaviour.

A new application scorecard has also been developed to evaluate SME clients. The model is highly predictive and classifies clients in 23 rating classes.

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

Taking into consideration of the scoring models, the Group classifies its credit portfolio into the following groups:

Group's Rating	**Loans and advances %**	**Provision Coverage %**
1. Performing loans - neither past due nor impaired	92.20	1.21
2. Watch-listed - individually impaired	3.68	4.39
3. Legal follow-up - individually impaired	4.12	60.13
	100.00	**3.76**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2008				31 December 2007			
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total
Corporate	520,891	165,170	40,346	**726,407**	105,090	60,934	53,486	**219,510**
Consumer	388,553	197,616	53,017	**639,186**	120,931	70,997	24,278	**216,206**
Credit cards	496,932	275,635	119,282	**891,849**	252,597	101,323	8,316	**362,236**
Leasing	12,620	9,748	598	**22,966**	7,834	6,759	8,351	**22,944**
Factoring	-	-	-	-	-	-	-	-
	1,418,996	648,169	213,243	2,280,408	486,452	240,013	94,431	820,896

Loans and Advances Rescheduled:

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

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

On the other hand, if restructuring is applied for loans in nonperforming loan accounts that loan will continue to stay at least 6 more months in nonperforming loan accounts and it may be transferred to specified “restructured loan accounts” when the both of the conditions of at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 30% of total (existing + additional loan). As of 31 December 2008, the total amount of restructured loans included in legal follow up during the year is YTL41,986 thousand (2007: YTL185,986 thousand)

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Maximum exposure to credit risk

	2008	2007
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	3,310,548	1,607,523
Loans and advances to customers		
- Credit cards	7,490,155	6,501,088
- Consumer	6,341,199	4,124,581
- Corporate	24,905,967	18,089,232
- Leasing	2,692,154	2,326,437
- Factoring	1,040,508	804,993
Trading assets:		
- Debt securities	378,877	296,304
Derivative financial instruments	433,651	50,351
Investment securities - debt securities		
- Available-for-sale	1,812,474	958,948
- Held-to-maturity	12,705,781	13,003,287
Other assets	989,504	1,039,568
Credit risk exposures relating to off-balance sheet items:		
Credit related commitments	16,143,907	13,226,182
Other	656,084	789,369

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

Industry sectors

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

	Financial Institutions	Manufacturing	Real Estate	Wholesale and retail trade	Public Sector	Other Industries	Individuals	Total
Loans and advances to banks	3,310,548	-	-	-	-	-	-	3,310,548
Loans and advances to customers	1,019,211	10,375,013	264,879	2,120,232	1,380,437	13,478,857	13,831,354	42,469,983
Trading assets – debt securities	35,402	-	-	-	343,295	180	-	378,877
Derivative financial instruments	346,704	65,436	1,721	37	-	19,673	80	433,651
Investment securities – debt securities	343,605	10,634	-	1,150	14,149,138	13,728	-	14,518,255
Other assets	315,978	-	-	-	16,259	577,253	80,014	989,504
As of 31 December 2008	**5,371,448**	**10,451,083**	**266,600**	**2,121,419**	**15,889,129**	**14,089,691**	**13,911,448**	**62,100,818**
As of 31 December 2007	**2,893,613**	**8,191,558**	**280,298**	**1,794,057**	**14,954,043**	**9,995,239**	**10,693,504**	**48,802,312**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical sectors

Geographical concentrations of total assets:

	Turkey	Italy	Other EU	Other	Total
Cash and balances with central banks	4,518,653	-	119,797	78,566	4,717,016
Loans and advances to banks	855,447	210,694	1,287,922	956,485	3,310,548
Trading assets	361,099	-	-	35,365	396,464
Derivative financial instruments	394,802	-	30,757	8,092	433,651
Loans and advances to customers, net					
- Credit cards	7,490,015	-	-	140	7,490,155
- Consumer	6,333,099	-	-	8,100	6,341,199
- Corporate	24,105,785	8,257	272,875	519,050	24,905,967
- Leasing	2,623,924	-	12,633	55,597	2,692,154
- Factoring	1,040,508	-	-	-	1,040,508
Investment securities					
- Available-for-sale	1,520,570	-	147,683	217,838	1,886,091
- Held-to-maturity	12,651,241	-	37,154	17,386	12,705,781
Investment in associate	-	-	-	55,593	55,593
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	179,573	-	-	124	179,697
Property and equipment	1,199,823	-	806	14,959	1,215,588
Deferred income tax assets	502,135	-	5,066	2,649	509,850
Other assets	959,426	2,191	14,662	13,225	989,504
As of 31 December 2008	**65,759,628**	**221,142**	**1,929,355**	**1,983,169**	**69,893,294**
As of 31 December 2007	**53,406,255**	**69,556**	**816,370**	**1,267,239**	**55,559,420**

Rating of debt securities:

	2008		2007	
Moody's credit rating model	**Trading securities**	**Investment securities**	**Trading securities**	**Investment securities**
Financial assets:				
Aaa	-	36,158	-	69,549
Aa	-	164,852	-	63,623
A	-	-	-	-
Baa	35,364	62,641	-	86,760
Ba3 [1]	300,308	14,176,139	254,215	13,638,286
Unrated	43,205	78,465	42,089	104,017
Total	**378,877**	**14,518,255**	**296,304**	**13,962,235**

[1] Securities consist of the Republic of Turkey government bonds and treasury bills.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market risk

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

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

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

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

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

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

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

(i) Fair value hedges

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Net investment hedges

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

The Group's Euro-denominated borrowing is designated as a hedge of the net investment in the Group's some EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at 31 December 2008 is EUR169 million (2007: EUR96 million). The foreign exchange loss of YTL57,440 thousand (2007: YTL11,249 thousand gain), net of tax, on translation of the borrowing to YTL at the balance sheet date is recognised in "other reserves" in equity.

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

(a) Value-at-risk

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

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

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied. (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is YTL2,167 thousand in 2008.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(a) Group VaR by risk type	12 months to Reporting Date (2008)		
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of securities	138,129	363,296	75,249
Equities risk	-	-	-
Total VaR	**134,121**	**404,636**	**73,141**

	12 months to Reporting Date (2007)		
	Average	High	Low
Foreign exchange risk	1,179	4,113	366
Interest rate risk of securities	69,623	154,574	3,094
Equities risk	-	-	-
Total VaR	**69,386**	**155,513**	**3,391**

(b) Trading portfolio VaR by risk type	12 months to Reporting Date (2008)		
	Average	High	Low
Foreign exchange risk	248	2,618	40
Interest rate risk of trading assets	1,919	7,798	321
Equities risk	-	-	-
Total VaR	**2,167**	**10,416**	**361**

	12 months to Reporting Date (2007)		
	Average	High	Low
Foreign exchange risk	1,179	4,113	366
Interest rate risk of trading assets	2,021	2,538	1,587
Equities risk	-	-	-
Total VaR	**3,200**	**6,651**	**1,953**

(c) Non-trading portfolio VaR by risk type	12 months to Reporting Date (2008)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	123,595	399,821	62,455
Equities risk	-	-	-
Total VaR	**123,595**	**399,821**	**62,455**

	12 months to Reporting Date (2007)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	67,602	152,036	1,507
Equities risk	-	-	-
Total VaR	**67,602**	**152,036**	**1,507**

(b) Stress tests

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

i) Foreign exchange risk

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

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

2008

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**YTL**	**Total**
Assets						
Cash and balances with central banks	89,623	2,696,534	76,159	2,862,316	1,854,700	4,717,016
Loans and advances to banks	1,225,854	1,584,284	247,183	3,057,321	253,227	3,310,548
Trading assets	115,548	82,541	-	198,089	198,375	396,464
Derivative financial instruments	-	-	-	-	433,651	433,651
Loans and advances to customers [1]	11,182,602	6,555,605	593,652	18,331,859	24,138,124	42,469,983
Investment securities						
- available-for-sale [2]	804,572	87,198	137,463	1,029,233	856,858	1,886,091
- held-to-maturity	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781
Investment in associates [2]	-	-	55,593	55,593	-	55,593
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	124	124	179,573	179,697
Property and equipment	-	806	14,959	15,765	1,199,823	1,215,588
Deferred income tax assets	-	5,066	2,649	7,715	502,135	509,850
Other assets	196,261	111,680	77,745	385,686	603,818	989,504
Total assets	**19,270,339**	**12,286,507**	**1,209,569**	**32,766,415**	**37,126,879**	**69,893,294**
Liabilities						
Deposits from banks	320,128	405,518	146,985	872,631	210,210	1,082,841
Due to customers	12,343,831	6,050,331	601,666	18,995,828	24,730,019	43,725,847
Other borrowed funds	2,974,763	5,050,085	17,237	8,042,085	1,610,353	9,652,438
Debt securities in issue	1,095,020	871,278	-	1,966,298	-	1,966,298
Derivative financial instruments	-	-	-	-	220,782	220,782
Financial liabilities designated at fair value	66,434	-	-	66,434	-	66,434
Current income taxes payable	-	904	642	1,546	6,793	8,339
Deferred income tax liabilities	-	4,431	1,989	6,420	195,502	201,922
Other provisions	29,471	-	-	29,471	347,764	377,235
Retirement benefit obligations	-	1,696	-	1,696	867,559	869,255
Insurance technical reserves	262,248	69,493	-	331,741	503,459	835,200
Other liabilities	190,331	472,187	19,626	682,144	3,165,544	3,847,688
Total liabilities	**17,282,226**	**12,925,923**	**788,145**	**30,996,294**	**31,857,985**	**62,854,279**
Net balance sheet position	**1,988,113**	**(639,416)**	**421,424**	**1,770,121**	**5,268,894**	**7,039,015**

Off-balance sheet derivative

(Amounts expressed in thousands of YTL unless otherwise indicated.)

instruments net notional position	(1,992,079)	864,709	(256,540)	(1,383,910)	1,779,666	395,756
Net foreign currency position	**(3,966)**	**225,293**	**164,884**	**386,211**	**7,048,560**	**7,434,771**

(1) Collective impairment allowance of YTL249,124 thousand calculated on foreign currency denominated loans is presented as YTL balance in the above currency position table.

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2008, the net foreign currency position of the Group would decrease from YTL386,211 thousand to YTL308,787 thousand.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2007

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**YTL**	**Total**
Assets						
Cash and balances with central banks	86,990	1,984,033	28,771	2,099,794	1,640,594	3,740,388
Loans and advances to banks	761,110	599,222	61,486	1,421,818	185,705	1,607,523
Trading assets	120,365	59,457	559	180,381	135,149	315,530
Derivative financial instruments	-	-	-	-	50,351	50,351
Loans and advances to customers (1)	7,265,901	4,788,802	297,662	12,352,365	19,493,966	31,846,331
Investment securities						
- available-for-sale (2)	259,071	73,855	108,474	441,400	598,499	1,039,899
- held-to-maturity	5,654,528	1,054,279	1,883	6,710,690	6,292,597	13,003,287
Investment in associates (2)	-	-	38,220	38,220	-	38,220
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	30	30	213,771	213,801
Property and equipment	-	170	9,578	9,748	1,138,983	1,148,731
Deferred income tax assets	-	2,243	59	2,302	489,961	492,263
Other assets	173,467	211,178	136,651	521,296	518,272	1,039,568
Total assets	**14,321,432**	**8,773,239**	**683,373**	**23,778,044**	**31,781,376**	**55,559,420**
Liabilities						
Deposits from banks	629,285	402,860	137,706	1,169,851	92,993	1,262,844
Due to customers	9,064,423	4,803,398	453,706	14,321,527	20,201,493	34,523,020
Other borrowed funds	3,092,784	3,522,658	32,645	6,648,087	658,856	7,306,943
Debt securities in issue	846,180	696,429	-	1,542,609	-	1,542,609
Derivative financial instruments	-	-	-	-	264,806	264,806
Financial liabilities designated at fair value	51,273	-	-	51,273	-	51,273
Current income taxes payable	-	363	255	618	9,952	10,570
Deferred income tax liabilities	-	1,854	2,058	3,912	128,551	132,463
Other provisions	76,238	828	-	77,066	224,083	301,149
Retirement benefit obligations	-	950	-	950	801,676	802,626
Insurance technical reserves	224,987	59,900	-	284,887	501,581	786,468
Other liabilities	223,638	220,980	46,897	491,515	3,016,460	3,507,975
Total liabilities	**14,208,808**	**9,710,220**	**673,267**	**24,592,295**	**25,900,451**	**50,492,746**
Net balance sheet position	**112,624**	**(936,981)**	**10,106**	**(814,251)**	**5,880,925**	**5,066,674**
Off-balance sheet derivative instruments net notional position	(245,412)	1,136,774	93,790	985,152	(792,441)	192,711
Net foreign currency position	**(132,788)**	**199,793**	**103,896**	**170,901**	**5,088,484**	**5,259,385**

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

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2007, the net foreign currency position of the Group would decrease from YTL170,901 thousand to YTL105,937 thousand.

At 31 December 2008, assets and liabilities denominated in foreign currency were translated into YTL using a foreign exchange rate of YTL1.4744 = US$1, and YTL2.0872= EUR1 (2007: YTL1.1355 = US$1, and YTL1.6674 = EUR1).

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest rate risk

Cash-flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair-value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest-rate risk limits are set in terms of a total sensitivity limit. Sensitivity analysis is performed according to a scenario of 5% shift in YTL yield curve and 1% shift in FX yield curve. The resulting P/L should not exceed 20% of the Bank's Tier 1 Capital. Moreover, the BPV is applied for the banking book. The BPV limit restricts maximum interest rate risk position by currency and time buckets with valuation changes being based on an interest rate change of 0.01%

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

2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,722,570	-	-	-	2,994,446	4,717,016
Loans and advances to banks	2,071,251	247,589	167,279	252,194	572,235	3,310,548
Trading assets	56,051	139,366	99,834	40,601	60,612	396,464
Derivative financial instruments	196,327	211,642	8,945	16,737	-	433,651
Loans and advances to customer	15,312,447	11,068,731	10,104,984	5,234,258	749,563	42,469,983
Investment securities						
- available-for-sale	574,391	205,178	397,623	581,104	127,795	1,886,091
- held-to-maturity	4,681,861	1,207,522	2,356,815	4,459,583	-	12,705,781
Investment in associate	-	-	-	-	55,593	55,593
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	179,697	179,697
Property and equipment	-	-	-	-	1,215,588	1,215,588
Deferred income tax assets	-	-	-	-	509,850	509,850
Other assets	132,030	7,394	-	-	850,080	989,504
Total assets	**24,746,928**	**13,087,422**	**13,135,480**	**10,584,477**	**8,338,987**	**69,893,294**
Liabilities						
Deposits from banks	737,269	112,933	-	-	232,639	1,082,841
Due to customers	35,843,769	1,271,331	453,577	98,601	6,058,569	43,725,847
Other borrowed funds	6,399,189	2,097,537	959,797	195,915	-	9,652,438
Debt securities in issue	1,966,298	-	-	-	-	1,966,298
Derivative financial instruments	174,035	28,469	1,603	16,675	-	220,782
Financial liabilities designated at fair value	66,434	-	-	-	-	66,434
Current income taxes payable	-	-	-	-	8,339	8,339
Deferred income tax liabilities	-	-	-	-	201,922	201,922
Other provisions	-	-	-	-	377,235	377,235
Retirement benefit obligations	-	-	-	-	869,255	869,255
Insurance technical reserves	-	-	-	-	835,200	835,200
Other liabilities	1,914,008	11,463	55,723	-	1,866,494	3,847,688
Total liabilities	**47,101,002**	**3,521,733**	**1,470,700**	**311,191**	**10,449,653**	**62,854,279**
Net interest repricing gap	**(22,354,074)**	**9,565,689**	**11,664,780**	**10,273,286**	**(2,110,666)**	**7,039,015**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2007	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with central banks	1,458,919	-	-	-	2,281,469	3,740,388
Loans and advances to banks	731,045	444,023	186,126	26,622	219,707	1,607,523
Trading assets	54,102	58,721	115,282	26,669	60,756	315,530
Derivative financial instruments	31,268	11,998	7,085	-	-	50,351
Loans and advances to customers	11,862,615	8,654,571	7,587,173	3,345,864	396,108	31,846,331
Investment securities						
- available-for-sale	254,374	130,426	324,495	195,279	135,325	1,039,899
- held-to-maturity	5,257,269	1,805,217	1,674,011	4,266,790	-	13,003,287
Investment in associate	-	-	-	-	38,220	38,220
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	213,801	213,801
Property and equipment	-	-	-	-	1,148,731	1,148,731
Deferred income tax assets	-	-	-	-	492,263	492,263
Other assets	82,952	7,480	4,198	599	944,339	1,039,568
Total assets	**19,732,544**	**11,112,436**	**9,898,370**	**7,861,823**	**6,954,247**	**55,559,420**
Liabilities						
Deposits from banks	813,819	365,202	-	-	83,823	1,262,844
Due to customers	26,796,979	1,885,669	249,580	-	5,590,792	34,523,020
Other borrowed funds	4,384,536	2,859,561	62,846	-	-	7,306,943
Debt securities in issue	1,542,609	-	-	-	-	1,542,609
Derivative financial instruments	96,913	165,866	2,027	-	-	264,806
Financial liabilities designated at fair value	-	51,273	-	-	-	51,273
Current income taxes payable	-	-	-	-	10,570	10,570
Deferred income tax liabilities	-	-	-	-	132,463	132,463
Other provisions	-	-	-	-	301,149	301,149
Retirement benefit obligations	-	-	-	-	802,626	802,626
Insurance technical reserves	-	-	-	-	786,468	786,468
Other liabilities	2,197,147	2,200	3	682	1,307,943	3,507,975
Total liabilities	**35,832,003**	**5,329,771**	**314,456**	**682**	**9,015,834**	**50,492,746**
Net interest repricing gap	**(16,099,459)**	**5,782,665**	**9,583,914**	**7,861,141**	**(2,061,587)**	**5,066,674**

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

	2008			**2007**		
	US$ (%)	**EUR (%)**	**YTL (%)**	**US$ (%)**	**EUR (%)**	**YTL (%)**
Assets						
Cash and balances with central banks	0.63	1.12	8.64	1.01	1.78	9.73
Loans and advances to banks	1.60	2.71	17.67	5.14	4.57	17.56
Trading assets	8.15	6.81	19.21	8.57	7.22	16.89
Investment securities						
- available-for-sale	6.43	7.76	19.63	7.69	7.92	17.75
- held-to-maturity	7.36	5.99	20.08	7.49	6.09	19.04
Loans and advances to customers	6.04	7.37	24.06	6.97	6.75	19.80

(Amounts expressed in thousands of YTL unless otherwise indicated.)

Liabilities						
Deposits from banks	5.39	5.54	16.07	5.22	4.56	17.13
Due to customers	4.50	3.60	20.28	4.83	3.33	18.68
Debt securities in issue	3.82	5.99	-	5.22	4.83	-
Financial liabilities designated at fair value	6.16	-	-	6.16	-	-
Other borrowed funds	3.44	5.66	15.67	5.35	4.84	16.02

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

iii) Liquidity risk

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

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

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

2008	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Liabilities					
Deposits from banks	973,054	115,688	-	-	1,088,742
Due to customers	42,138,195	1,315,708	526,844	140,178	44,120,925
Other borrowed funds	2,134,802	4,046,580	2,469,799	2,728,494	11,379,675
Debt securities in issue	-	70,460	1,359,451	978,386	2,408,297
Financial liabilities designated at fair value	-	67,032	-	-	67,032
Total liabilities	**44,272,997**	**5,615,468**	**4,356,094**	**3,847,058**	**59,064,671**

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

Derivatives settled on a gross basis

2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	3,330,414	543,402	2,335,235	42,073	-	6,251,124
- Inflow	3,332,589	537,323	2,795,922	41,602	-	6,707,436
Interest rate derivatives:						
- Outflow	216,750	7,144	308,537	1,980,982	328,646	2,842,059
- Inflow	499,929	1,871,994	163,571	17,636	328,646	2,881,776
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Total outflow	**3,547,164**	**550,546**	**2,643,772**	**2,023,055**	**328,646**	**9,093,183**
Total inflow	**3,832,518**	**2,409,317**	**2,959,493**	**59,238**	**328,646**	**9,589,212**

2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	3,282,143	1,284,700	444,522	116,541	-	5,127,906
- Inflow	3,383,208	1,229,858	420,219	93,903	-	5,127,188
Interest rate derivatives:						
- Outflow	-	174,624	93,946	652,405	481,785	1,402,760
- Inflow	225,862	294,941	104,471	45,953	481,785	1,153,012
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	29,570	28,585	89,386	-	-	147,541
- Inflow	26,227	62,550	13,894	-	-	102,671
Total outflow	**3,311,713**	**1,487,909**	**627,854**	**768,946**	**481,785**	**6,678,207**
Total inflow	**3,635,297**	**1,587,349**	**538,584**	**139,856**	**481,785**	**6,382,871**

C. Operational risk

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Capital management

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

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

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

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

	2008	**2007**
Tier I capital	6,893,480	5,093,324
Tier II capital	2,847,207	2,329,005
Deductions	(1,413,263)	(1,424,080)
Total regulatory capital	8,327,424	5,998,249
Risk-weighted assets (including market and operational risk)	58,484,021	46,836,390
Capital adequacy ratio (%)	**14.24**	**12.81**

According to the temporary article 1. of Regulation Regarding Capital Adequacy; "Special Costs", "Prepaid Expenses", "Intangible Assets" and "Amount of deferred tax asset exceeding 10% of core capital" will be considered as "Deductions from the Capital" until 1 January 2009. After this date, the aforementioned amounts will be deducted from "Tier I Capital".

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

E. Fair value of financial instruments

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

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

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

	2008		2007	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Loans and advances to banks	3,310,548	3,340,164	1,607,523	1,641,350
Investment securities (held-to-maturity)	12,705,781	12,482,450	13,003,287	13,184,329
Loans and advances to customers	42,469,983	42,653,501	31,846,331	32,014,078
Financial liabilities:				
Deposits from banks	1,082,841	1,082,849	1,262,844	1,262,867
Due to customers	43,725,847	43,725,847	34,523,020	34,523,020
Other borrowed funds (1)	9,718,872	9,760,990	7,358,216	7,402,082
Debt securities in issue	1,966,298	1,966,298	1,542,609	1,542,609

(1) Includes financial liabilities designated at fair value.

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

Loans and advances to banks

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

Loans and advances to customers

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

Investment securities

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

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

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

The estimated fair value of interest bearing due to customers is considered to approximate its carrying amounts.

F. Fiduciary activities

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

	2008	2007
Investment securities held in custody	15,497,795	17,543,083
Cheques received for collection	5,350,632	4,824,347
Commercial notes received for collection	1,599,651	3,260,890
	22,448,078	**25,628,320**

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	2008	2007
Cash and cash equivalents	608,093	444,943
Demand deposits with central banks	888,849	542,456
Gold	74,524	133,768
Loans and advances to banks		
(with original maturity less than three months)	1,981,778	915,929
Total	**3,553,244**	**2,037,096**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS

	2008	2007
Cash and cash equivalents		
Cash in hand - foreign currency	182,631	135,929
Cash in hand - YTL	421,331	300,007
Cheques received - foreign currency	372	1,080
Other	3,759	7,927
	608,093	**444,943**
Demand deposits at central banks		
Foreign currency	888,795	542,456
YTL	54	-
	888,849	**542,456**
Reserve deposits at central banks		
Foreign currency	1,790,518	1,420,329
YTL	1,429,556	1,332,660
	3,220,074	**2,752,989**
	4,717,016	**3,740,388**

Reserve deposits at central banks are as follows:

	2008	2007
The Central Bank of Republic of Turkey	3,093,081	2,727,162
De Nederlandsche Bank	119,789	19,454
The Central Bank of the Russian Federation	348	3,246
The National Bank of Azerbaijan	6,856	3,127
Total	**3,220,074**	**2,752,989**

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

Turkish:

Reserve requirements of Central Bank of the Republic of Turkey ("CBRT") represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 6% (2007: 6%) and 9% (2007: 11%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

Foreign:

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

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

Reserve requirements of Central Bank of the Russian Federation represents reserve deposits equivalent to 0.5% of borrowings from non-resident bank from all currencies, 0.5% of individual deposits denominated in Russian Rubles, 0.5% of the deposits of legal entities for all currencies.

Reserve requirements of National Bank of Azerbaijan; represent reserve deposits equivalent to 6% of the statutory balances of customer accounts, due to banks and other funds borrowed.

NOTE 7 - LOANS AND ADVANCES TO BANKS

	2008			2007		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
YTL:						
Nostro/ demand deposits	28,778	7,619	36,397	48,010	263	48,273
Time deposits	82,875	2,578	85,453	59,137	64,567	123,704
Interbank money market	126,497	4,880	131,377	13,728	-	13,728
	238,150	**15,077**	**253,227**	**120,875**	**64,830**	**185,705**
Foreign currency:						
Nostro/ demand deposits	12,054	523,784	535,838	37,494	133,940	171,434
Time deposits	575,275	1,849,623	2,424,898	439,319	391,323	830,642
Interbank money market	29,968	66,617	96,585	-	419,742	419,742
	617,297	**2,440,024**	**3,057,321**	**476,813**	**945,005**	**1,421,818**
	855,447	**2,455,101**	**3,310,548**	**597,688**	**1,009,835**	**1,607,523**

NOTE 8 - TRADING ASSETS

	2008	**2007**
Government bonds and treasury bills	193,854	152,188
Government bonds and treasury bills sold under repurchase agreements	106,454	102,027
Other debt securities	78,569	42,089
Total debt securities	**378,877**	**296,304**
Equity securities - listed	17,587	19,226
Total equity securities	**17,587**	**19,226**
Total trading assets	**396,464**	**315,530**

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group utilises the following derivative instruments:

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

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

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

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

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

2008

	Contract/ notional	Fair values	
	amount	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3,875,363	83,184	65,999
Currency swaps	8,047,504	235,958	50,147
OTC currency options	769,814	1,847	521
Other derivatives	46,462	-	-
Total OTC derivatives	**12,739,143**	**320,989**	**116,667**
Interest rate derivatives:			
Interest rate swaps	3,179,352	526	22,637
Cross-currency interest rate swaps	2,188,339	112,136	81,478
OTC interest rate options	266,440	-	-
Total OTC derivatives	**5,634,131**	**112,662**	**104,115**
Total derivative assets/ (liabilities) held for trading	**18,373,274**	**433,651**	**220,782**
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Interest rate swaps	-	-	-
Total derivative assets/ (liabilities) held for hedging	**-**	**-**	**-**
Total recognised derivative assets/ (liabilities)	**18,373,274**	**433,651**	**220,782**
Current		370,839	146,828
Non-current		62,812	73,954
Total recognised derivative assets/ (liabilities)		**433,651**	**220,782**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

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

2007

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

2008	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	24,131,553	5,998,995	7,050,632	2,456,562	1,046,234	40,683,976
Watch listed loans	813,328	250,613	394,908	166,171	-	1,625,020
Loans under legal follow - up	889,788	246,739	493,860	183,098	4,984	1,818,469
Gross	**25,834,669**	**6,496,347**	**7,939,400**	**2,805,831**	**1,051,218**	**44,127,465**
Specific allowance for impairment	(634,178)	(103,181)	(321,075)	(101,510)	(4,838)	(1,164,782)
Collective allowance for impairment	(294,524)	(51,967)	(128,170)	(12,167)	(5,872)	(492,700)
Total allowance for impairment	**(928,702)**	**(155,148)**	**(449,245)**	**(113,677)**	**(10,710)**	**(1,657,482)**
Net	**24,905,967**	**6,341,199**	**7,490,155**	**2,692,154**	**1,040,508**	**42,469,983**

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

Fair value of collateral:

2008	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	301,121	190,007	-	86,084	-	577,212
Loans under legal follow - up	252,781	77,044	-	79,114	4,984	413,923
Total	**553,902**	**267,051**	**-**	**165,198**	**4,984**	**991,135**

2007	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	47,131	114,244	-	45,634	-	207,009
Loans under legal follow - up	259,165	25,993	-	29,757	4,079	318,994
Total	**306,296**	**140,237**	**-**	**75,391**	**4,079**	**526,003**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Included in the performing loans and advances to corporate customers, there are no financial assets which have been designated at fair value as of 31 December 2008 (2007: YTL115,000 thousand). Those loans have been matched with interest rate swaps amounting to YTL119,763 as of 31 December 2007 thousand as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the loans and advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. By designating those loans and advances at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

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

	2008						2007
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total	Total
At 1 January	**1,288,466**	**116,186**	**501,505**	**75,472**	**8,112**	**1,989,741**	**1,937,035**
Provision for loan impairment	282,209	189,646	304,225	83,564	2,481	862,125	573,406
Amounts recovered during the year	(122,654)	(148,766)	(171,159)	(38,073)	(82)	(480,734)	(223,011)
Loans written off during the year as uncollectible (-)	(520,521)	(2,410)	(185,345)	(7,286)	-	(715,562)	(307,565)
Exchange differences	1,202	492	19	-	199	1,912	9,876
At 31 December	**928,702**	**155,148**	**449,245**	**113,677**	**10,710**	**1,657,482**	**1,989,741**

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

	2008	2007
Gross investment in direct finance leases	3,163,335	2,810,321
Unearned finance income	(511,495)	(496,584)
	2,651,840	**2,313,737**
Interest accrual on receivables	30,752	23,929
Receivables from outstanding lease payments	123,239	64,243
Provision for impaired lease receivables	(113,677)	(75,472)
Net investment in direct finance leases	**2,692,154**	**2,326,437**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	2008	2007
2008	-	1,102,293
2009	1,214,924	772,343
2010 and over	1,753,133	851,081
Less: unearned finance income	(511,495)	(496,584)
Investment in performing lease receivables	**2,456,562**	**2,229,133**

NOTE 11 - INVESTMENT SECURITIES

(i) Securities available-for-sale

	2008	2007
Debt securities - at fair value:	1,812,474	958,948
Government bonds and treasury bills	912,228	601,949
Eurobonds	641,995	282,480
Other	258,251	74,519
Equity securities - at fair value	73,617	80,951
Listed	53,246	60,701
Unlisted	20,371	20,250
Total securities available-for-sale	**1,886,091**	**1,039,899**

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

Net gains/losses from changes in the fair value of available-for-sale investment securities, net of tax is YTL(9,689) thousand (2007: YTL7,372 thousand). There are no impairments recognised for available-for-sale debt securities.

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

Name of the company	Nature of Business	2008 Control rates (%)	2007 Control rates (%)	2008	2007
Listed					
Yapı Kredi Koray	Real estate management	30.45	30.45	31,354	33,855
Mastercard Inc.	Credit Card Services	0.01	0.11	11,449	26,744
Visa Inc.	Credit Card Services	0.01	-	10,382	-
Other				61	102
				53,246	**60,701**
Unlisted					
ISE Settlement and Custody Bank Inc.	Custody	4.86	4.86	12,360	12,360
Kredi Kayıt Bürosu A.Ş.	Credit Card Services	18.18	18.18	2,751	2,751
Türkiye Genel Sigorta A.Ş.	Insurance	0.01	0.01	25	25
Other				5,235	5,114
				20,371	**20,250**
				73,617	**80,951**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 11 - INVESTMENT SECURITIES (Continued)

(ii) Securities held-to-maturity

	2008	2007
Debt securities - at amortised cost - listed:	12,705,781	13,003,287
Government bonds and treasury bills	6,192,275	5,806,239
Eurobonds	5,718,643	5,298,995
Government bonds and treasury bills sold under repurchase agreements	161,622	1,539,859
Eurobonds sold under repurchase agreement	583,340	225,032
Foreign government bonds	49,901	133,162
Total securities held-to-maturity	**12,705,781**	**13,003,287**
Total investment securities	**14,591,872**	**14,043,186**

The movement in held-to-maturity securities at 31 December is as follows:

	2008	2007
At 1 January	**13,003,287**	**16,964,466**
Additions	536,931	3,789,617
Disposals / redemption	(2,356,693)	(6,644,040)
Transfers	-	(4,199)
Exchange differences on monetary assets	1,522,256	(1,102,557)
At 31 December	**12,705,781**	**13,003,287**

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

NOTE 12 - INVESTMENT IN ASSOCIATE

	2008	2007
At 1 January	**38,220**	**41,352**
Share of results	3,667	1,890
Dividends paid	(1,290)	(1,217)
Exchange difference	14,996	(3,805)
At 31 December	**55,593**	**38,220**

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

	Total Assets	Equity	Revenues	Net Profit
31 December 2007	2,229,733	124,616	94,005	10,129
31 December 2008	3,440,068	181,261	131,758	16,163

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 13 - GOODWILL

	2008	2007
At 1 January	**1,023,528**	**1,023,528**
Impairment charge	-	-
At 31 December	**1,023,528**	**1,023,528**

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

There was no impairment identified at 31 December 2008 (2007: None).

NOTE 14 - OTHER INTANGIBLE ASSETS

	2008	2007
Cost	288,115	313,408
Accumulated amortisation and impairment	(108,418)	(99,607)
Net book amount	**179,697**	**213,801**

Movements of other intangible assets were as follows:

2008	**Rights and licenses**	**Software**	**Trademarks and customer relationships related intangibles**	**Total**
Cost				
At 1 January	**110,275**	**40,049**	**163,084**	**313,408**
Additions	27,072	10,044	-	37,116
Disposals	(23,357)	(4,296)	-	(27,653)
Transfers	(37,738)	2,947	-	(34,791)
Translation differences	-	35	-	35
At 31 December	**76,252**	**48,779**	**163,084**	**288,115**
Accumulated amortisation and impairment				
At 1 January	**(41,067)**	**(21,847)**	**(36,693)**	**(99,607)**
Amortisation charge (Note 33)	(16,811)	(7,458)	(16,308)	(40,577)
Disposals	23,357	4,172	-	27,529
Transfers	4,125	141	-	4,266
Translation differences	-	(29)	-	(29)
At 31 December	**(30,396)**	**(25,021)**	**(53,001)**	**(108,418)**
Net book amount at 31 December	**45,856**	**23,758**	**110,083**	**179,697**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 14 - OTHER INTANGIBLE ASSETS (Continued)

2007	**Rights and licences**	**Software**	**Trademarks and customer relationships related intangibles**	**Total**
Cost				
At 1 January	**91,002**	**78,812**	**163,084**	**332,898**
Additions	58,760	**10,372**	-	69,132
Disposals	(508)	(48,530)	-	(49,038)
Transfers	(38,979)	(516)	-	(39,495)
Translation differences	-	(89)	-	(89)
At 31 December	**110,275**	**40,049**	**163,084**	**313,408**
Accumulated amortisation and impairment				
At 1 January	**(59,765)**	**(73,528)**	**(20,385)**	**(153,678)**
Amortisation charge (Note 33)	(11,023)	(6,943)	(16,308)	(34,274)
Disposals	461	48,269	-	48,730
Transfers	29,260	10,285	-	39,545
Translation differences	-	70	-	70
At 31 December	**(41,067)**	**(21,847)**	**(36,693)**	**(99,607)**
Net book amount at 31 December	**69,208**	**18,202**	**126,391**	**213,801**

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset. In line with the report dated 13 February 2006 the Bank recognised YTL163,084 thousand of intangible assets in its consolidated financial statements. Identified intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years. As of 31 December 2008, the net book value of these intangible assets amounts to YTL110,083 thousand (2007: YTL126,391 thousand).

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 15 - PROPERTY AND EQUIPMENT

	2008	2007
Cost	4,060,379	3,980,047
Accumulated depreciation and impairment	(2,844,791)	(2,831,316)
Net book amount	**1,215,588**	**1,148,731**

2008

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	**3,008,795**	**587,197**	**308,021**	**76,034**	**3,980,047**
Additions	862	65,931	56,904	66,270	189,967
Disposals	(98,890)	(11,474)	(24,091)	(12,886)	(147,341)
Transfers	-	(2,169)	2,028	34,932	34,791
Translation difference	1,070	838	213	794	2,915
At 31 December	**2,911,837**	**640,323**	**343,075**	**165,144**	**4,060,379**
Accumulated depreciation and impairment					
At 1 January	**(2,093,780)**	**(434,410)**	**(255,013)**	**(48,113)**	**(2,831,316)**
Depreciation charge (Note 33)	(47,355)	(41,551)	(20,834)	(16,499)	(126,239)
Disposals	54,143	10,590	7,158	11,832	83,723
Transfers	-	2,169	(2,028)	(4,407)	(4,266)
Recoveries	36,826	-	-	-	36,826
Impairment charge, net (Note 33)	(1,841)	-	-	-	(1,841)
Translation difference	(325)	(638)	(108)	(607)	(1,678)
At 31 December	**(2,052,332)**	**(463,840)**	**(270,825)**	**(57,794)**	**(2,844,791)**
Net book amount at 31 December	**859,505**	**176,483**	**72,250**	**107,350**	**1,215,588**

2007

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	**3,369,374**	**614,220**	**296,026**	**128,791**	**4,408,411**
Additions	7,945	74,668	11,750	14,287	108,650
Disposals	(357,043)	(83,044)	(17,245)	(56,645)	(513,977)
Transfers	(9,259)	(18,042)	18,432	(10,062)	(18,931)
Translation difference	(2,222)	(605)	(942)	(337)	(4,106)
At 31 December	**3,008,795**	**587,197**	**308,021**	**76,034**	**3,980,047**
Accumulated depreciation and impairment					
At 1 January	**(2,330,310)**	**(484,459)**	**(239,563)**	**(100,005)**	**(3,154,337)**
Depreciation charge (Note 33)	(52,787)	(47,635)	(16,893)	(14,967)	(132,282)
Disposals	179,765	79,844	15,488	56,607	331,704
Transfers	6,882	17,244	(14,971)	9,726	18,881
Recoveries from sales	100,728	-	-	-	100,728
Impairment charge, net (Note 33)	1,345	-	-	-	1,345
Translation difference	597	596	926	526	2,645
At 31 December	**(2,093,780)**	**(434,410)**	**(255,013)**	**(48,113)**	**(2,831,316)**
Net book amount at 31 December	**915,015**	**152,787**	**53,008**	**27,921**	**1,148,731**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 15 - PROPERTY AND EQUIPMENT (Continued)

At 31 December 2008, total impairment provision on property and equipment amounts to YTL631,265 thousand (2007: YTL666,250 thousand).

Leased assets included in the furniture, fixtures, vehicles and equipment, where the Group is the lessee, amounted to YTL131,130 thousand (2007: YTL133,961 thousand).

NOTE 16 - OTHER ASSETS

	2008	2007
Prepaid expenses	167,845	131,630
Due from insurance policyholders	158,656	189,332
Collaterals given	130,584	161,374
Asset held for resale, net [1]	95,149	146,617
Payments for credit card settlements	44,082	43,847
Advances given	26,155	75,483
Accounts receivable	17,165	9,625
Other	349,868	281,660
	989,504	**1,039,568**
Current	794,218	775,307
Non-current	195,286	264,261

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

Movements in assets held for resale at 31 December were as follows:

	2008	2007
Cost		
At 1 January	**128,938**	**497,072**
Additions	59,620	23,754
Disposals	(70,953)	(373,997)
Transfer of Yapı Kredi Deutschland A.G.	-	(16,462)
Translation difference	-	(1,429)
At 31 December	**117,605**	**128,938**
Impairment		
At 1 January	**(60,854)**	**(314,532)**
Impairment charge for the year, net (Note 33)	(522)	(5,566)
Disposals	38,920	248,779
Transfer of Yapı Kredi Deutschland A.G.	-	9,627
Translation difference	-	838
At 31 December	**(22,456)**	**(60,854)**
Net book amount at 31 December	**95,149**	**68,084**
Total assets of Yapı Kredi Deutschland A.G.	**-**	**78,533**
Total net book amount at 31 December	**95,149**	**146,617**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 17 - DEPOSITS FROM BANKS

	2008			2007		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	94,482	116	94,598	28,404	393,014	421,418
Foreign banks	25,452	127,603	153,055	16,048	74,417	90,465
Funds deposited under repurchase agreements	-	624,978	624,978	-	657,968	657,968
	119,934	**752,697**	**872,631**	**44,452**	**1,125,399**	**1,169,851**
YTL:						
Domestic banks	91,710	49,674	141,384	7,167	37,791	44,958
Foreign banks	20,995	47,831	68,826	32,204	7,313	39,517
Funds deposited under repurchase agreements	-	-	-	-	8,518	8,518
	112,705	**97,505**	**210,210**	**39,371**	**53,622**	**92,993**
	232,639	**850,202**	**1,082,841**	**83,823**	**1,179,021**	**1,262,844**
Current	232,639	850,202	1,082,841	83,823	1,179,021	1,262,844
Non-current	-	-	-	-	-	-

NOTE 18 - DUE TO CUSTOMERS

	2008			2007		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	1,754,634	8,420,204	10,174,838	1,506,940	6,934,478	8,441,418
Commercial deposits	1,801,831	7,015,821	8,817,652	1,744,676	4,133,714	5,878,390
Public sector deposits	3,338	-	3,338	1,719	-	1,719
	3,559,803	**15,436,025**	**18,995,828**	**3,253,335**	**11,068,192**	**14,321,527**
YTL deposits:						
Saving deposits	1,044,092	14,787,777	15,831,869	930,469	10,345,803	11,276,272
Commercial deposits	1,203,785	7,119,835	8,323,620	1,185,605	5,920,460	7,106,065
Funds deposited under repurchase agreements	-	160,448	160,448	-	1,413,225	1,413,225
Public sector deposits	250,889	163,193	414,082	221,383	184,548	405,931
	2,498,766	**22,231,253**	**24,730,019**	**2,337,457**	**17,864,036**	**20,201,493**
	6,058,569	**37,667,278**	**43,725,847**	**5,590,792**	**28,932,228**	**34,523,020**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

Current	6,058,569	37,115,099	43,173,668	5,590,792	28,682,646	34,273,438
Non-current	-	552,179	552,179	-	249,582	249,582

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 19 - OTHER BORROWED FUNDS

	2008	2007
Foreign institutions and banks		
Syndication loans	1,479,804	1,717,122
Subordinated debt	2,220,601	1,772,914
Other	4,800,994	2,908,352
Total foreign	**8,501,399**	**6,398,388**
Domestic banks	883,428	509,323
Interbank money market	267,611	399,232
Total domestic	**1,151,039**	**908,555**
	9,652,438	**7,306,943**
Current	5,701,524	4,570,391
Non-current	3,950,914	2,736,552

Funds borrowed from foreign institutions include a syndicated credit facility, in the amount of US$559.5 million and EUR313.5 million dual-tranche multi-currency term loan facility dated 10 September 2008, with an interest rate of annual Libor+0.75% provided by 42 international banks with The Bank of New York Mellon acting as agent, and matures on 24 September 2009.

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 20 - DEBT SECURITIES IN ISSUE

			Average interest rate (%)	
	2008	**2007**	**2008 (1)**	**2007 (1)**
US$175,000,000 Series 2006-A Floating Rate Notes Due 2014	258,967	200,078	2.42	5.23
US$200,000,000 Series 2006-B Floating Rate Notes Due 2014	295,962	228,660	2.39	5.20
US$115,000,000 Series 2006-C Floating Rate Notes Due 2013	170,155	131,462	2.52	5.33
€300,000,000 Series 2006-D Floating Rate Notes Due 2014	629,848	503,452	4.34	4.84
€115,000,000 Series 2007-A Floating Rate Notes Due 2015	241,430	192,977	4.30	4.80
US$250,000,000 of Series 2007-B Floating Rate Notes Due 2015	369,936	285,980	2.36	5.17
	1,966,298	**1,542,609**		
Current	-	-		
Non-current	1,966,298	1,542,609		
	1,966,298	**1,542,609**		

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

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

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

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

NOTE 21 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2008	**2007**
Financial liabilities designated at fair value	66,434	51,273

Certain fixed rate borrowed funds have been matched with cross currency swaps as part of a documented currency risk management strategy. An accounting mismatch would arise if the borrowed funds were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt is recorded in the income statement. The contractual undiscounted amount that will be required to be paid at maturity of the above debt is YTL67,032 thousand (2007: YTL54,753 thousand). There were no significant gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value as of 31 December 2008 (2007: None).

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 22 - TAXATION

	2008	**2007**
Current tax expense	(255,320)	(269,029)
Deferred tax (expense) / income	(61,096)	57,537
Refund from tax litigation against the corporation (1)	-	22,879
Additional corporate tax liability due to tax refunds (2)	-	(49,064)
	(316,416)	**(237,677)**

(1) The tax litigations against the corporate tax of 2003 and 2004 fiscal year and the withholding tax of the year 2003 (which has been declared in April 2004) have been concluded in favour of Koçbank with the decisions of Istanbul 1. Tax Court dated 17 May 2006 and Istanbul 3. Tax Court dated 12 June 2006. The Tax Office has already appealed to the Council of State against the resolutions of Tax Courts and the appeal investigations are continuing. Based on the resolutions of Tax Courts, YTL22,879 thousand (related to 2005 fiscal year) has been refunded from the Tax Office to Koçbank and has been recognised in the Group's consolidated financial statements as deferred tax income as of 31 December 2007.

(2) As of 28 March 2008, YKB has made an agreement with local tax authorities in relation to the corporate tax declarations for the periods 2003/2005 and gave up the legal process against tax authorities according to Law Numbered 5736 came into force on 27 February 2008. In relation to the agreement, a payment amounting to YTL49,064 thousand which has been collected previously in the years 2006 and 2007, has been made to the tax authorities.

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

(i) Corporate Tax Rate and Filing

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

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

(ii) Controlled Foreign Corporations ("CFC")

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

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

NOTE 22 - TAXATION (Continued)

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

(iii) Thin Capital

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

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

(iv) Transfer Pricing

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

(v) Anti-tax Heaven

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

NOTE 22 - TAXATION (Continued)

(vi) Dividend Taxation

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

(vii) Advance Corporate Tax

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

(viii) Inflation Accounting

In accordance with Tax Law No: 5024 “Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law” that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the year 2008.

(ix) Tax Assessments

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

(x) Loss Carry Forward

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

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

Exemption for participation in subsidiaries

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

Exemption for sale of preferential right certificates and share premiums

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

NOTE 22 - TAXATION (Continued)

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

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

Exemption for participation into foreign subsidiaries

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

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

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

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

Exemption for income generated from foreign offices and permanent representatives

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

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

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

NOTE 22 - TAXATION (Continued)

Exemption for sale of participation shares and property

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

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

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

Exemption for investment allowance

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

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 22 - TAXATION (Continued)

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

	2008	2007
Profit before income taxes	**1,686,384**	**1,201,272**
Theoretical income tax at the applicable tax rate of 20%	337,277	240,254
Effect of different tax rates in other countries	2,178	2,877
Refund from tax litigation against the corporate tax	-	(22,879)
Non-taxable consolidation adjustments	29,175	15,930
Additional corporate tax liability due to tax refunds	-	49,064
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income exempt from taxation	(62,969)	(34,410)
- Non-deductible expenses for tax purposes	36,635	16,213
- Utilisation of investment incentive	(25,563)	(29,024)
- Utilised tax loss carry forward	-	(1,011)
-Other	(317)	663
Income tax expense	**316,416**	**237,677**

Deferred income taxes

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

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

Country of incorporation	Tax rate (%)	
	2008	**2007**
Russia	24.00	24.00
Netherlands	25.50	25.50
Azerbaijan	22.00	22.00

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 22 - TAXATION (Continued)

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

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	2008	**2007**	**2008**	**2007**
Impairment on assets	775,436	856,770	88,210	104,922
Allowance for loan impairment	712,361	736,714	142,540	134,315
Pension benefits transferable to SSI (Note 24)	774,366	706,000	154,873	141,200
Reserve for employee termination benefits (Note 24)	94,889	96,626	19,058	19,324
Revaluation of derivative instruments at fair value	220,782	264,806	43,577	51,206
Valuation differences on investment securities	36,571	27,336	7,314	5,468
Other	269,736	183,018	54,278	35,828
Deferred income tax assets	**2,884,141**	**2,871,270**	**509,850**	**492,263**
Difference between carrying value and tax base of property and equipment	984,944	1,000,363	105,199	106,628
Valuation differences on investment securities	2,329	34,863	117	6,972
Revaluation of derivative instruments at fair value	433,651	50,351	84,769	10,180
Assets capitalised under finance leases	8,294	8,523	1,659	1,704
Other	57,686	82,935	10,178	6,979
Deferred income tax liabilities	**1,486,904**	**1,177,035**	**201,922**	**132,463**
Deferred income tax assets, net	**1,397,237**	**1,694,235**	**307,928**	**359,800**

The movements of deferred income taxes at 31 December were as follows:

	2008	**2007**
Balance at 1 January	**359,800**	**305,529**
Charge for the year, net	(61,096)	57,537
Tax assets charged to equity	(872)	(923)
Net investment hedge	12,526	(2,812)
Translation difference	(2,430)	469
Balance at 31 December	**307,928**	**359,800**

There are no deductible temporary differences for which no deferred tax assets is recognised in the balance sheet (2007: YTL82,714 thousand).

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 23 - OTHER PROVISIONS

	2008	2007
Provision for losses on credit related commitments	173,698	131,872
Tax and other legal provisions	63,775	92,185
Provisions on credit cards and promotion campaigns	56,674	36,014
Provision on export commitment estimated liability	40,495	39,945
Other	42,593	1,133
	377,235	**301,149**

Tax and other legal provisions

At 31 December 2008, the Group is involved in number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of YTL22,927 thousand (2007: YTL12,865 thousand) as the best estimate of the amount to settle these potential obligations.

The Group recorded total provision of YTL40,848 thousand (2007: YTL79,320 thousand) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended 31 December 2008.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfil their export commitments and has recognised provision of YTL40,495 thousand (2007: YTL39,945 thousand).

Provision for credit related commitments

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

	2008	2007
Balance at 1 January	**131,872**	**160,472**
Impairment losses on credit related commitments (Note 34)	41,827	(28,601)
Provision used	(115)	(87)
Translation difference	114	88
Balance at 31 December	**173,698**	**131,872**

Movement in other provisions is as follows:

	Tax and other legal provision	Provisions on credit cards and promotion cam.	Export commitment provision	Other	2008 Total	2007 Total
At 1 January	**92,185**	**36,014**	**39,945**	**1,133**	**169,277**	**218,063**
Provision charged	72,865	133,921	550	45,778	253,114	229,431
Provision used	(101,275)	(113,261)	-	(4,314)	(218,850)	(275,769)
Transfers to discontinued operations	-	-	-	-	-	(2,073)
Translation difference	-	-	-	(4)	(4)	(375)
Balance at 31 December	**63,775**	**56,674**	**40,495**	**42,593**	**203,537**	**169,277**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS

	2008	2007
Balance sheet obligations for:		
- Post employment benefits (pension and medical) transferable to SSI	774,366	706,000
- Reserve for employment termination benefits	94,889	96,626
	869,255	**802,626**

	2008	2007
Income statement charge for:		
- Post employment benefits (pension and medical) transferable to SSI	(68,366)	(106,760)
- Reserve for employment termination benefits	(15,308)	(11,967)
	(83,674)	**(118,727)**

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the years 31 December 2008 and 2007.

The cash payments to the Fund by the Group which represent the employers contribution during the year amounting to YTL88,796 thousand (2007: YTL69,706 thousand) has been included staff cost expenses under operating expenses (Note 33). Total expenses on post employment benefits are amounting to YTL157,162 thousand (2007: YTL176,466 thousand).

(i) Post employment benefits (Pension and medical) transferable to SSI

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The Group obtained an actuarial report from a registered actuary regarding this fund in accordance with the New Law related to principles and procedures on determining the application of transfer transactions. The actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of YTL774,366 thousand at 30 November 2008. (2007: YTL706,000 thousand)

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

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

	2008	2007
Present value of funded obligations	1,063,181	935,366
- Pension benefits transferable to SSI	*1,036,138*	*904,367*
- Post-employment medical benefits transferable to SSI	*27,043*	*30,999*
Fair value of plan assets	(288,815)	(229,366)
Liability in the balance sheet	**774,366**	**706,000**

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

	Defined benefit pension plans		Post-employment medical benefits	
	2008	2007	2008	2007
At 1 January	**904,367**	**703,400**	**30,999**	**66,382**
Current service cost	54,336	67,405	34,460	2,301
Interest cost	88,628	68,933	3,038	6,505
Contributions by plan participants	46,104	57,192	24,306	1,917
Actuarial losses/(gains)	37,687	107,891	(33,955)	(14,281)
Benefits paid	(94,984)	(100,454)	(31,805)	(31,825)
At 31 December	**1,036,138**	**904,367**	**27,043**	**30,999**

The amounts recognised in the income statement are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	2008	2007	2008	2007
Current service cost	54,336	67,405	34,460	2,301
Interest cost	88,628	68,933	3,038	6,505
Expected Return on plan assets	(53,993)	(34,681)	-	-
Net actuarial (gains) / losses recognised during the year	72,147	110,192	(41,454)	(44,189)
	161,118	**211,849**	**(3,956)**	**(35,383)**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	2008 (%)	2007 (%)
Discount rate		
- Pension benefits transferable to SSI	*9.80*	*9.80*
- Post-employment medical benefits transferable to SSI	*9.80*	*9.80*

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

	Increase/ Decrease
Effect on the aggregate of the current service cost and interest cost	30
Effect on the defined benefit obligation	5,045

Mortality rate

The average life expectancy in years of a pensioner retiring at age 64 for men, 63 for women on the balance sheet date is as follows:

	2008	2007
Male	15	15
Female	19	20

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

	2008	2007
At 1 January	**229,366**	**170,542**
Actual return on plan assets	53,993	34,681
Employer contributions	54,336	67,405
Employee contributions	46,104	57,192
Benefits paid	(94,984)	(100,454)
At 31 December	**288,815**	**229,366**

Plan assets are comprised as follows:

	2008		2007	
Government bonds and treasury bills	144,207	50%	112,742	50%
Property and equipment	94,596	33%	94,596	41%
Bank placements	17,240	6%	14,216	6%
Short term receivables	7,662	3%	2,080	1%
Other	25,110	8%	5,732	2%
	288,815	**100%**	**229,366**	**100%**

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

Expected contributions to post-employment benefit plans for the year ending 31 December 2009 are YTL169,000 thousand.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

(ii) Reserve for employment termination benefits

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

	2008	2007
Balance at 1 January	**96,626**	**106,581**
Interest costs	5,543	5,387
Actuarial gains and losses	7,466	11,426
Annual charge	2,299	(4,846)
Transfer to assets held for resale	-	(879)
Paid during the year	(17,238)	(20,785)
Translation difference	193	(258)
Balance at 31 December	**94,889**	**96,626**

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to YTL15,308 thousand (2007: YTL11,967 thousand) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of YTL2,260.05 (1 January 2008: YTL2,087.92) for each year of service.

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

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

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

	2008	2007
Discount rate (%)	6.26	5.71
The probability of retirement (%)	95.53	96.20

Additionally, the principal actuarial assumption is that the maximum liability of YTL2,087.92 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of YTL2,260.05 (1 January 2008: YTL2,087.92) which is effective from 1 January 2009, has been taken into consideration in calculating the reserve for employee benefits of the Parent and its domestic subsidiaries.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 25 - INSURANCE BUSINESS

	2008	2007
Mathematical reserve	315,123	272,742
Profit share reserve	228,221	215,810
Unearned premium reserve	208,531	223,430
Outstanding claim reserve	67,387	62,150
Insurance IBNR reserve	15,938	12,336
Total	**835,200**	**786,468**

Insurance Liabilities and Reinsurance Assets

Gross insurance liabilities	**2008**	**2007**
Life mathematical reserves	543,344	488,552
Reserve for unearned premiums	269,495	277,926
Claims provision	133,065	121,569
Total	**945,904**	**888,047**
Recoverable from reinsurers		
Reserve for unearned premiums	(60,963)	(54,496)
Claims provision	(49,740)	(47,083)
Total	**(110,703)**	**(101,579)**
Net insurance liabilities		
Life mathematical reserves	543,344	488,552
Reserve for unearned premiums	208,531	223,430
Claims provision	83,325	74,486
Total	**835,200**	**786,468**

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses:

		2008	
	Gross	**Reinsurance**	**Net**
At the beginning of the year	121,569	(47,083)	74,486
Cash paid for claims settled in the year	68,342	20,043	88,385
Increase/(decrease) in liabilities			
- Current year	(71,340)	(14,496)	(85,836)
- Prior years	14,398	(8,108)	6,290
Total at the end of the year	**132,969**	**(49,644)**	**83,325**
Notified claims			67,387
Insurance IBNR			15,938
Total at the end of the year			**83,325**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 25 - INSURANCE BUSINESS (Continued)

		2007	
	Gross	**Reinsurance**	**Net**
At the beginning of the year	104,270	(42,264)	62,006
Cash paid for claims settled in the year	(55,466)	25,306	(30,160)
Increase/(decrease) in liabilities			
- Current year	57,279	(24,347)	32,932
- Prior years	15,486	(5,778)	9,708
Total at the end of the year	**121,569**	**(47,083)**	**74,486**
Notified claims			62,150
Insurance IBNR			12,336
Total at the end of the year			**74,486**

(b) Provision for unearned premiums:

		2008	
	Gross	**Reinsurance**	**Net**
Reserve for unearned premiums			
- beginning of the year	277,926	(54,496)	223,430
Net change in			
reserve for unearned premiums	(8,431)	(6,468)	(14,899)
Total at the end of the year	**269,495**	**(60,964)**	**208,531**

		2007	
	Gross	**Reinsurance**	**Net**
Reserve for unearned premiums			
- beginning of the year	242,457	(46,417)	196,040
Net change in			
reserve for unearned premiums	35,469	(8,079)	27,390
Total at the end of the year	**277,926**	**(54,496)**	**223,430**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 25 - INSURANCE BUSINESS (Continued)

c) Sensitivity analysis:

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

Claim development table as of 31 December 2008:

Accident year	2004	2005	2006	2007	2008	Total
Estimate of ultimate claim costs:						
At the end of accident year	191,928	241,552	260,355	298,572	328,021	1,320,428
One year later	2,824	4,784	4,811	3,112	-	15,531
Two years later	137	1,477	1,436	-	-	3,050
Three years later	1,021	1,271	-	-	-	2,292
Four years later	311	-	-	-	-	311
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	196,221	249,084	266,602	301,684	328,021	1,341,612
Cumulative payments to date	(200,515)	(249,228)	(272,815)	(297,597)	(279,060)	(1,299,215)
Total						42,397
Estimated Insurance IBNR						40,928
Total liability per claim development table						**83,325**
Other assumed claims						-
Total liability included in the balance sheet						**83,325**

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

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

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

	2008	2007
Balance at 1 January	**488,552**	**532,367**
Premium of saving policies	59,569	65,881
Investment income	101,763	2,033
Closing balance of non-saving life policies	33,984	21,768
Surrender and policy maturities	(104,981)	(94,372)
Loading expenses	(4,790)	(6,351)
Commission expenses	(6,210)	(877)
Risk premium	(6,067)	(6,773)
Beginning balance of non-saving life policies	(21,768)	(13,188)
Other movements	3,292	(11,936)
Balance at 31 December	**543,344**	**488,552**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 25 - INSURANCE BUSINESS (Continued)

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

	Amount in original currency		YTL Equivalent	
	2008	2007	2008	2007
US$	173,411	193,172	262,248	224,987
EUR	32,461	35,025	69,493	59,900
			331,741	**284,887**

	2008	2007
Earned premiums, net of reinsurance		
Gross premiums written	695,215	720,788
Outward reinsurance premiums	(170,461)	(170,354)
Change in reserve for unearned premiums, net of reinsurance	(98,576)	(27,390)
Claims incurred, net of reinsurance		
Claims paid, net	(448,881)	(399,551)
Gross amount	(521,642)	(485,609)
Reinsurers' share	72,761	86,058
Change in claims provision, net of reinsurance	(14,974)	(12,478)
Commissions, net	(5,011)	(42,777)
Other income/(expense), net	122,913	36,825
Income from non-life insurance business	**80,225**	**105,063**

NOTE 26 - OTHER LIABILITIES

	2008	2007
Credit card payables	2,053,187	1,896,244
Blocked accounts	271,402	179,108
Import deposit and transfer orders	265,334	231,397
Miscellaneous payables to customers	212,031	159,728
Taxes other than income and withholdings	184,704	145,110
Clearing accounts	174,087	326,528
Premium and bonuses payable to personnel	145,594	144,354
Provision for unused annual vacation	59,205	42,958
Unearned income	58,061	24,820
Saving Deposits Insurance Fund payable	15,490	6,212
Advances taken	10,884	16,257
Other	397,709	335,259
Total	**3,847,688**	**3,507,975**
Current	3,693,136	3,347,744
Non-current	154,552	160,231

NOTE 27 - ACQUISITIONS AND MERGERS

(i) Mergers, transfers and acquisitions in the year 2008

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

Besides, the nominal share capital amount of EUR32,672,880.00 (67.24% of the capital), owned by KFS in Yapı Kredi NV has been purchased by YKB in return for EUR97,502,661.71 and the cost of the share purchase has been paid to KFS as YTL165,062 thousand converted with the CBRT EUR exchange buying rate at 11 January 2008.

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

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

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

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 28 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 434,705,128.40 thousand (2007: 342,705,128.40 thousand) authorised shares with a nominal value of YTL0.01 each. The Company's authorised capital amounts to YTL4,347,051 thousand (2007: YTL3,427,051 thousand). In 2008, the Bank increased its issued capital by YTL920,000,000 from YTL3,427,051,284 to YTL4,347,051,284 all in cash within the Bank's registered capital ceiling of YTL5,000,000,000

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

	2008		2007	
Shareholders	**Participation rate (%)**	**YTL thousand**	**Participation rate (%)**	**YTL thousand**
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.79	2,802,933
Other	18.20	791,339	18.21	624,118
Historical share capital	**100.00**	**4,347,051**	**100.00**	**3,427,051**
Adjustment to share capital		(60,471)		(60,471)
Share premium		535,679		533,431
Total share capital and share premium		**4,822,259**		**3,900,011**

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

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES

	2008	**2007**
Statutory reserve	44,114	17,184
Translation reserves	112,761	8,803
Revaluation reserve - available-for-sale investments	16,108	25,797
Hedging reserves	(65,385)	(7,945)
Total other reserves	**107,598**	**43,839**
Retained earnings	**2,065,235**	**829,603**

Included in retained earnings are costs directly attributable to the issue of new shares shown in equity as a deduction amounting to YTL1,844 thousand.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES (Continued)

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2008	**17,184**	**25,797**	**8,803**	**(7,945)**	**43,839**
Net change in available-for-sale Investments, net of tax	-	(9,689)	-	-	(9,689)
Gains on hedges of a net investment in a foreign operation	-	-	-	(57,440)	(57,440)
Currency translation differences	-	-	103,970	-	103,970
Transfer to statutory reserves	26,930	-	-	-	26,930
Purchase from minority interests	-	-	(12)	-	(12)
At 31 December 2008	**44,114**	**16,108**	**112,761**	**(65,385)**	**107,598**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2007	**17,184**	**18,379**	**29,924**	**(19,194)**	**46,293**
Net change in available-for-sale Investments, net of tax	-	7,372	-	-	7,372
Gains on hedges of a net investment in a foreign operation	-	-	-	11,249	11,249
Currency translation differences	-	-	(27,723)	-	(27,723)
Effect of merged entities under common control (Note 2.Q and 27)	-	46	8,696	-	8,742
Effect of share exchange	-	-	(2,094)	-	(2,094)
At 31 December 2007	**17,184**	**25,797**	**8,803**	**(7,945)**	**43,839**

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

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

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

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 30 - NET INTEREST INCOME

	2008	2007
Interest income on:		
Loans and advances:		
- to banks	133,831	134,204
- to customers	5,365,649	4,161,927
Reserve deposits	218,706	189,073
Investment securities	1,657,859	1,782,113
Financial leases	297,227	261,205
Other	63,460	20,166
Total interest income	**7,736,732**	**6,548,688**
Interest expense on:		
Deposits from banks	(154,808)	(22,496)
Due to customers	(3,983,091)	(3,357,627)
Repurchase agreement	(120,044)	(233,020)
Other borrowed funds	(578,328)	(447,220)
Securities issued	(82,530)	(89,931)
Financial derivatives	(148,337)	(112,858)
Other	(850)	(7,864)
Total interest expense	**(5,067,988)**	**(4,271,016)**
Net interest income	**2,668,744**	**2,277,672**

NOTE 31 - NET FEE AND COMMISSION INCOME

	2008	2007
Fee and commission income on:		
Credit/debit cards	775,557	654,509
Banking services	478,167	338,971
Assets under management	229,036	186,525
Loans		
- Credit related commitments	181,364	131,028
- Loans and advances	86,973	58,968
Brokerage	31,879	26,959
Insurance products	25,080	52,311
Factoring	10,978	11,087
Other	20,502	25,694
Total fee and commission income	**1,839,536**	**1,486,052**
Fee and commission expense on:		
Credit/debit cards	(238,363)	(222,976)
Insurance products	(40,450)	(63,048)
Brokerage	(6,028)	(462)
Factoring	(4,451)	(3,597)
Other borrowed funds	(1,232)	(3,939)
Other	(43,752)	(40,760)
Total fee and commission expense	**(334,276)**	**(334,782)**
Net fee and commission income	**1,505,260**	**1,151,270**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 32 - NET TRADING, HEDGING AND FAIR VALUE INCOME

	2008	2007
Foreign exchange:		
- Translation gains less losses of trading assets	(19)	2,154
- Transaction gains less losses	59,625	14,035
Interest rate instruments	(43,058)	(20,883)
Net income from financial instruments designated at fair value	(3,993)	(1,131)
Equities	(9,931)	7,123
	2,624	**1,298**

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

NOTE 33 - OTHER OPERATING EXPENSES

	2008	2007
Staff costs	**(1,150,268)**	**(1,017,430)**
Depreciation on property and equipment (Note 15)	(126,239)	(132,282)
Amortisation of intangible assets (Note 14)	(40,577)	(34,274)
Depreciation and amortisation	**(166,816)**	**(166,556)**
(Impairment charge) / reversal of impairment/ on property and equipment (Note 15)	(1,841)	1,345
Impairment charge on assets held for resale (Note 16)	(522)	(5,566)
Impairment charge	**(2,363)**	**(4,221)**
Communication expenses	(102,895)	(101,320)
Rent expenses	(96,122)	(68,324)
Marketing and advertisement costs	(90,861)	(127,331)
Sundry taxes and duties	(66,852)	(45,309)
Payment to saving deposit insurance fund	(37,989)	(24,917)
Repair and maintenance expenses	(36,499)	(28,192)
Utilities	(30,599)	(22,852)
Audit and consultancy fees	(27,331)	(25,180)
Charity	(4,245)	(5,308)
Other	(299,406)	(266,039)
General administrative expenses	**(792,799)**	**(714,772)**
Total	**(2,112,246)**	**(1,902,979)**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 34 -IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

	2008	2007
Impairment losses on loans and receivables (Note 10)	(381,391)	(350,395)
Impairment losses on credit related commitments (Note 23)	(41,827)	28,601
	(423,218)	**(321,794)**

NOTE 35 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	2008		2007	
	Assets	**Related liability**	**Assets**	**Related liability**
Balances with the central banks (Note 6) [1]	3,220,074	55,781,217	2,752,989	41,713,570
Trading securities (Note 8)				
- repurchase agreements	106,454	89,893	102,027	80,606
- trading securities pledged	67,663	-	54,274	-
Investment securities (Note 11)				
- available-for-sale repurchase agreements	18,639	10,216	-	-
- available-for-sale securities pledged	754,867	194,653	487,359	-
- held-to-maturity repurchase agreements	744,962	685,318	1,764,891	1,999,106
- held-to-maturity securities pledged	2,023,696	1,083,285	1,420,683	491,508
Other assets pledged [2]	136,649	-	167,414	-
Total	**7,073,004**	**57,844,582**	**6,749,637**	**44,284,790**

(1) Assets pledged with the central banks are pledged for the Group's reserve requirement.
(2) Other assets pledged are the collaterals given to the counter parties of the interest rate swap transactions whose total contractual amount is YTL3,179,352 thousand (2007: YTL1,074,030 thousand) and the additional collaterals given in relation to the funds obtained under repurchase agreements (Note 17).

Available-for-sale and held-to-maturity securities whose total carrying amount is YTL1,580,347 thousand as of 31 December 2008 (2007: 507,912 thousand) are pledged to banks and other financial institutions against borrowed funds (Note 19). Total amount of such borrowings is YTL1,082,024 thousand as of 31 December 2008 (2007: YTL491,508 thousand). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the borrowing agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT and ISE Settlement and Custody Bank.

NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December.

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal proceedings

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

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

Credit related commitments

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

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

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

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

2008[1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,418,078	904,288	459,198	-	2,781,564
Letter of guarantees	7,275,939	2,059,223	3,324,035	703,146	13,362,343
Acceptance credits	211,367	-	-	-	211,367
Other commitments	27,379	34,442	327,493	55,403	444,717
Total	**8,932,763**	**2,997,953**	**4,110,726**	**758,549**	**16,799,991**

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

[1] Based on original maturities.

NOTE 37 - SEGMENT ANALYSIS

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

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

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

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

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

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

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

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 37 - SEGMENT ANALYSIS (Continued)

2008	Retail banking	Corporate banking	Private banking and wealth management	Credit cards	Foreign operations	Other	Eliminations	Group
Segment revenue	1,327,669	1,112,725	288,802	1,001,738	93,821	916,727	(186,469)	4,555,013
Segment result	1,286,658	887,495	287,627	697,249	75,270	747,133	(186,469)	3,794,963
Unallocated costs (1)								(2,112,246)
Operating profit								**1,682,717**
Share of results of associates								3,667
Profit before tax								**1,686,384**
Income tax expense								(316,416)
Profit for the year								**1,369,968**
Segment assets	10,397,262	23,331,433	551,719	7,970,632	3,920,005	25,055,298	(1,388,648)	69,837,701
Associates								55,593
Total assets								**69,893,294**
Segment liabilities	17,105,710	18,160,125	8,467,738	2,261,743	3,374,032	14,866,878	(1,381,947)	62,854,279
Total liabilities								**62,854,279**
Other segment items (1)								
Capital expenditure						(227,083)		(227,083)
Depreciation and amortisation						(166,816)		(166,816)
Impairment charge						(2,363)		(2,363)
Other non-cash expenses						(760,050)		(760,050)

2007(1)	Retail banking	Corporate banking	Private banking and wealth management	Credit cards	Foreign operations	Other	Eliminations	Group
Segment revenue	1,040,771	914,799	262,009	959,579	85,639	654,724	(145,208)	3,772,313
Segment result	986,488	798,517	261,965	634,927	83,994	481,678	(145,208)	3,102,361
Unallocated costs (1)								(1,902,979)
Operating profit								**1,199,382**
Share of results of associates								1,890
Profit before tax								**1,201,272**
Income tax expense								(237,677)
Profit for the year								**963,595**
Segment assets	7,150,159	16,926,273	493,065	6,742,468	2,991,204	21,826,358	(608,327)	55,521,200
Associates								38,220
Total assets								**55,559,420**
Segment liabilities	14,427,192	14,727,376	5,831,586	470,106	2,512,840	13,125,110	(601,464)	50,492,746
Total liabilities								**50,492,746**
Other segment items (1)								
Capital expenditure						(177,782)		(177,782)
Depreciation and amortisation						(166,556)		(166,556)
Impairment charge						(4,221)		(4,221)
Other non-cash expenses						(669,952)		(669,952)

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

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 38 - RELATED PARTY TRANSACTIONS

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

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

(i) Balances with related parties:

	2008		2007	
	Total	**Share in total %**	**Total**	**Share in total %**
Loans and advances to customers, net	595,479	1	633,843	2
Loans and advances to banks	210,261	6	6,702	-
Marketable securities	76,298	1	-	-
Derivative financial instruments	11,134	3	86	-
Other assets	4,705	-	137	-
Total assets	**897,877**		**640,768**	
Due to customers	4,304,156	10	2,787,117	8
Deposits from banks	24,910	2	17,643	1
Other borrowed funds	1,308,868	14	620,170	8
Other liabilities	1,371	-	1,606	-
Derivative financial instruments	9,585	4	32	-
Total liabilities	**5,648,890**		**3,426,568**	
Credit related commitments	633,294	4	689,358	5
Commitment under derivative instruments	711,872	4	188,006	2
Total commitments and contingent liabilities	**1,345,166**		**877,364**	

(ii) Transactions with related parties:

	2008		2007	
	Total	**Share in total %**	**Total**	**Share in total %**
Interest income on loans and advances to customers	105,898	2	38,805	2
Interest income on loans and advances to banks	102	-	1,694	3
Interest income on financial leases	2,689	1	4,134	4
Fee and commission income	10,486	1	5,649	1
Other operating income	1,899	1	428	1
Total interest and fee income	**121,074**		**50,710**	
Interest expense on deposits	(447,310)	11	(147,458)	9
Interest expense on funds borrowed	(28,409)	4	(3,422)	1
Fee and commission expense	(4,131)	1	(48)	-
Other operating expense	(514)	-	(2,102)	-
Total interest and fee expense	**(480,364)**		**(153,030)**	

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 38 - RELATED PARTY TRANSACTIONS (Continued)

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

	2008	2007
Loans and advances to customers, net	339	211
Interest income on loans and advances to customers	16	22
Due to customers	18,747	19,825
Interest expense on deposits	592	977
Fee and commission income	-	3
Commitments and contingent liabilities	-	-

Salaries and other benefits paid to the Group's key management approximately amount to YTL32,209 thousand as of 31 December 2008 (2007: YTL41,526 thousand).

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 39 - ASSETS UNDER MANAGEMENT

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

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

Name of the Fund	2008 %	2007 %	2008 YTL	2007 YTL
Mutual Funds				
Yapı ve Kredi Bankası A.Ş. B Tipi Likit Fonu	0.0125	0.0125	3,398,765	3,682,460
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Likit Fonu	0.009	0.009	313,292	367,799
Yapı ve Kredi Bankası A.Ş. B Tipi Değişken Fonu	0.007	0.007	258,045	392,053
Yapı ve Kredi Bankası A.Ş. B Tipi Orta Vadeli Tahvil ve Bono Fonu	0.006	0.006	180,752	331,445
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Gökkuşağı Yatırım Fonu	0.0098	-	86,011	-
Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Uzun Vadeli Tahvil ve Bono Fonu	0.006	0.006	58,567	211,757
Yapı Kredi Bankası A.Ş. B tipi Özel Bankacılık Değişken Fonu	0.0055	0.0055	40,907	47,111
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Karma Fonu	0.003	0.003	38,747	37,374
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Özel Portföy Yönetimi Değişken Fonu	0.005	0.005	29,541	93,457
Yapı ve Kredi Bankası A.Ş. B Tipi Büyüme Amaçlı Değişken Fon	0.007	0.007	28,030	81,930
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Birinci Yatırım Fonu	0.0074	-	17,510	-
Yapı ve Kredi Bankası A.Ş. A Tipi Özel Bankacılık İMKB Ulusal 30 Endeksi Fonu	0.0028	0.0028	17,147	32,395
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Değişken Fonu	0.012	0.012	16,827	22,277
Yapı ve Kredi Bankası A.Ş. B Tipi Özel Bankacılık Büyüme Amaçlı Değişken Fonu	0.0055	0.0055	15,346	66,852
Yapı ve Kredi Bankası A Tipi Hisse Fonu	0.01	0.01	14,522	22,388
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi İMKB Ulusal 30 Endeks Fonu	0.012	0.012	10,582	15,785
Yapı ve Kredi Bankası A.Ş. A Tipi İMKB Ulusal 100 Endeksi Fonu	0.01	0.01	6,114	11,995
Yapı ve Kredi Bankası A.Ş. B Tipi Dünya Fonları Fon Sepeti Fonu	0.0014	0.0014	3,883	4,948
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Özel Portföy Yönetimi Değişken Fonu	0.008	0.008	2,525	5,448
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Koç Şirketleri İştirak Fonu	0.01	0.01	1,859	4,442
Yapı ve Kredi Bankası A.Ş. A Tipi Karma Fonu	0.01	0.01	1,169	1,787
Yapı ve Kredi Bankası A.Ş. B Tipi Tahvil Bono (Eurobond) Fonu	0.008	0.008	972	1,171
Yapı ve Kredi Bankası A.Ş. A Tipi Yabancı Menkul Kıymetler Fonu	0.01	0.01	876	354
Yapı ve Kredi Bankası A.Ş. A Tipi Koç Allianz Sigorta Özel Fon	0.0027	0.0027	219	341
Yapı Kredi Bankası A.Ş. B Tipi Kurumsal Değişken Fon	0.0021	-	-	-
Total mutual funds			**4,542,208**	**5,435,569**

(Amounts expressed in thousands of YTL unless otherwise indicated.)

NOTE 39 - ASSETS UNDER MANAGEMENT (Continued)

Name of the Fund	2008 %	2007 %	2008 YTL	2007 YTL
Pension funds				
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yat. Fonu	0.0055	0.0055	373,959	261,887
Allianz Hayat ve Emeklilik A.Ş Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0052	0.0052	205,998	155,090
Yapı Kredi Emeklilik AŞ Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	185,195	153,788
Yapı Kredi Emeklilik AŞ Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0055	0.0055	173,405	111,345
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Yatırım Fonu	0.0055	0.0055	150,128	78,918
Allianz Hayat ve Emeklilik A.Ş Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0052	0.0052	50,300	23,067
Yapı Kredi Emeklilik A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yat. Fonu	0.0055	0.0055	37,489	48,755
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	0.0055	0.0055	19,299	39,151
Allianz Hayat ve Emeklilik A.Ş Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0075	0.0075	17,596	16,100
Allianz Hayat ve Emeklilik A.Ş İhtisaslaşmış İmkb Ulusal 30 Endeksi Emeklilik Yatırım Fonu	0.0082	0.0082	16,547	22,701
Allianz Hayat ve Emeklilik A.Ş Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	14,453	9,936
Allianz Hayat ve Emeklilik A.Ş Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0034	7,173	799
Allianz Hayat ve Emeklilik A.Ş Gelir Amaçlı Kamu Borçlanma Araçları (Dövize End.) Emeklilik Yatırım Fonu	0.0058	0.0058	6,858	4,036
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (Euro)	0.0055	0.0055	4,033	2,433
Allianz Hayat ve Emeklilik A.Ş Gelir Amaçlı Uluslararası Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	3,983	3,327
Yapı Kredi Emeklilik A.Ş. Esnek (YTL) Grup Emeklilik Fonu	0.00275	0.00275	2,548	1,410
Yapı Kredi Emeklilik A.Ş. Para Piyasası Emanet Likit – Karma Emeklilik Yat. Fonu	0.0055	0.0055	2,547	1,174
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu	0.0055	0.0055	2,073	1,903
Allianz Hayat ve Emeklilik A.Ş Para Piyasası Emanet Likit Kamu Emeklilik Yatırım Fonu	0.006	0.006	560	555
Yapı Kredi Emeklilik A.Ş. Esnek Döviz Grup Emeklilik Yatırım Fonu	0.00275	0.00275	544	180
Allianz Hayat ve Emeklilik A.Ş Gruplara Yönelik Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0027	0.0041	364	92
Allianz Hayat ve Emeklilik A.Ş Gruplara Yönelik Gelir Amaçlı Döviz Cinsi Karma Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0034	243	196
Total pension funds			**1,275,295**	**936,843**
Total			**5,817,503**	**6,372,412**

NOTE 40 - POST BALANCE SHEET EVENTS

1) According to The Council of Minister's sentence dated 4 April 2007 and numbered 2007/11963, currency unit of Turkish Republic amended from Yeni Türk Lirası ("YTL") to Türk Lirası ("TL") as of 1 January 2009.

2) With the Bank's board resolution dated 30 January 2009 it is approved the changes in the head quarter's organisation structure and the assignments in the top management level.

   In that scope;

   i) Establishment of an executive committee consist of Tayfun Bayazıt as the chairman, Alessandro M. Decio as the vice chairman and Nazan Somer, Erhan Özçelik, Mert Güvenen, Cihangir Kavuncu, Massimiliano Fossati, Marco Cravario as members,

   ii) Assignment of Alessandro M. Decio as the attorney of CEO who is formerly COO,

   iii) According to the new organisation's structure, the assignment and replacement procedure of vice chairman which is proposed by the chairman is changed and explained below,

      a) The assignment of Nazan Somer as the vice president of the Credit Cards and Consumer Lending and retail banking who is still the vice president of Credit Cards and Consumer Lending,

      b) The acceptance of the resignation of Hamit Aydoğan from the vice presidency of Corporate Banking,

      c) The assignment of Mert Güvenen as the vice president of the Commercial and Corporate Banking and Foreign Participatings who is formerly the vice president of Commercial Banking,

      d) The assignment of Erhan Özçelik as the vice president of Private Banking and Subsidiaries, Portolio Management and Investment Services Operations who is formerly the vice president of Private Banking and Foreign Operations Management,

      e) The assignment of Massimilano Fossati as the vice president of Risk Management who is formerly the vice president of Corporate and Commercial Credits,

      f) The assignment of Güray Alpkaya as the vice president of Corporate and Commercial Credit Sales who is formerly the vice president of Risk Management,

      g) The assignment of Feza Tan as the vice president of Corporate and Commercial Credits who is formerly the head of Corporate and Commercial Credit Allocation Group,

      h) The assignment of Yüksel Rizeli as the Executive Director of Operations and Information Technologies Coordination who is formerly the Executive Director of Operations.

3) In the Bank's Board of Directors meetings at 28 January 2009, it was decided to assign Füsun Akkal Bozok in lieu of Ahmet Ashaboğlu by Audit Committee and selected Ranieri De Marchis as a member of Credit committee in lieu of Dr. Bülent Bulgurlu.

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