



**Türkiye Garanti Bankası Anonim Şirketi  
And Its Affiliates**

Consolidated Financial Statements

30 September 2009

With Report on Review of Interim  
Financial Information Thereon

6 November 2009

This report contains the “Report on Review of Interim Financial Information” comprising 1 page and; the “Consolidated Financial Statements and Their Explanatory Notes” comprising 73 pages.

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**Türkiye Garanti Bankası Anonim Şirketi**  
**And Its Affiliates**

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## Report on Review of Consolidated Interim Financial Information

To the Board of Directors of  
Türkiye Garanti Bankası Anonim Şirketi,

### *Report on the consolidated financial statements*

We have reviewed the accompanying consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as at 30 September 2009 and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

### *Scope of review*

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

### *Basis of qualification*

As of balance sheet date, the accompanying consolidated statement of financial position includes a general provision amounting to TL 295,000 thousands provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions, and TL 265,000 thousands of such provision has been recognized as expense in the current period.

### *Conclusion*

Based on our review, except for the effect on the consolidated statement of financial positions of the matter described in the basis of qualification paragraph above, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Bank and its affiliates as at 30 September 2009, and of its financial performance and its cash flows for the nine-month period then ended in accordance with IAS 34.

*KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.*

İstanbul,  
6 November 2009

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**As at 30 September 2009**

(Currency: Thousands of Turkish Lira (TL))

|  | <u>Notes</u> | <u>30 September 2009</u>  | <u>31 December 2008</u>  |
|--|--------------|---------------------------|--------------------------|
| <b>Assets</b>  |              |                           |                          |
| Cash and balances with central banks                                 | 4            | 6,399,414                 | 3,972,533                |
| Financial assets at fair value through profit or loss                | 5            | 409,960                   | 564,137                  |
| Loans and advances to banks  | 6            | 9,243,962                 | 8,004,241                |
| Loans and advances to customers                                      | 7            | 54,766,862                | 53,870,069               |
| Other assets   | 9            | 5,394,954                 | 4,203,250                |
| Investment securities  | 10,21        | 33,273,791                | 26,112,129               |
| Investments in equity participations                                 | 11           | 67,903                    | 70,437                   |
| Tangible assets, net   | 12           | 1,351,973                 | 1,238,627                |
| Goodwill, net  | 13           | 33,170                    | 33,170                   |
| Deferred tax asset   | 19           | 147,597                   | 119,745                  |
| <b>Total assets</b>  |              | <b><u>111,089,586</u></b> | <b><u>98,188,338</u></b> |
| <b>Liabilities</b>   |              |                           |                          |
| Deposits from banks  | 14           | 2,846,128                 | 2,119,279                |
| Deposits from customers  | 15           | 61,446,295                | 55,837,808               |
| Obligations under repurchase agreements                              | 16           | 12,201,656                | 11,153,180               |
| Loans and advances from banks  | 17           | 14,636,191                | 13,443,583               |
| Subordinated liabilities   | 18           | 1,017,423                 | 947,530                  |
| Current tax liability  | 19           | 409,401                   | 127,684                  |
| Deferred tax liability   | 19           | 13,068                    | -                        |
| Other liabilities and accrued expenses                               | 20           | 5,567,993                 | 4,655,769                |
| <b>Total liabilities</b>   |              | <b><u>98,138,155</u></b>  | <b><u>88,284,833</u></b> |
| <b>Shareholders' equity and minority interest</b>                    |              |                           |                          |
| Share capital  | 21           | 5,146,371                 | 5,146,371                |
| Share premium  | 21           | 11,880                    | 11,880                   |
| Minority interest  | 21           | 46,124                    | 35,201                   |
| Unrealised gains on available-for-sale assets                        | 10,21        | 1,417,622                 | 177,751                  |
| Hedging reserve  | 21           | (2,428)                   | 60,998                   |
| Translation reserve  | 21           | 35,349                    | 35,987                   |
| Legal reserves   | 21           | 383,645                   | 289,414                  |
| Retained earnings  | 21           | 5,912,868                 | 4,145,903                |
| <b>Total shareholders' equity and minority interest</b>              |              | <b><u>12,951,431</u></b>  | <b><u>9,903,505</u></b>  |
| <b>Total liabilities, shareholders' equity and minority interest</b> |              | <b><u>111,089,586</u></b> | <b><u>98,188,338</u></b> |
| <b>Commitments and contingencies</b>                                 | 23           |                           |                          |

The notes on pages 5 to 73 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Nine-Month Period Ended 30 September 2009**  
*(Currency: Thousands of Turkish Lira (TL))*

|   |                   | Nine-month<br>period ended<br>30 September 2009 | Three-month<br>period ended<br>30 September 2009 | Nine-month<br>period ended<br>30 September 2008 | Three-month<br>period ended<br>30 September 2008 |
|---|-------------------|---|--|---|--|
| Interest income:-   |                   |   |  |   |  |
| <i>Interest on loans</i>  |                   | 4,814,437                                       | 1,506,473  | 4,243,050                                       | 1,494,967  |
| <i>Interest on securities</i>   |                   | 2,991,636                                       | 989,120  | 2,111,088                                       | 793,018  |
| <i>Interest on deposits at banks</i>  |                   | 347,270   | 92,599   | 486,918   | 167,167  |
| <i>Interest on lease business</i>   |                   | 179,614   | 55,621   | 174,149   | 57,429   |
| <i>Others</i>   |                   | 63,490  | 19,208   | 75,330  | 24,618   |
|   |                   | 8,396,447                                       | 2,663,021  | 7,090,535                                       | 2,537,199  |
| Interest expense:-  |                   |   |  |   |  |
| <i>Interest on saving, commercial and public deposits</i>                               |                   | (3,226,123)                                     | (922,788)  | (2,949,786)                                     | (1,092,815)                                      |
| <i>Interest on borrowings and obligations under repurchase agreements</i>               |                   | (1,192,943)                                     | (374,483)  | (1,359,706)                                     | (494,615)  |
| <i>Interest on bank deposits</i>  |                   | (68,720)  | (4,311)  | (120,068)                                       | (38,485)   |
| <i>Interest on subordinated liabilities</i>   |                   | (48,238)  | (14,166)   | (14,456)  | (10,929)   |
| <i>Others</i>   |                   | (1,777)   | (2,951)  | (3,436)   | (919)  |
|   |                   | (4,537,801)                                     | (1,318,701)                                      | (4,447,452)                                     | (1,637,763)                                      |
| <b>Net interest income</b>  |                   | <b>3,858,646</b>                                | <b>1,344,320</b>                                 | <b>2,643,083</b>                                | <b>899,436</b>                                   |
| Fee and commission income   |                   | 1,703,165                                       | 569,252  | 1,517,320                                       | 522,611  |
| Fee and commission expense  |                   | (333,298)                                       | (105,457)  | (322,042)                                       | (123,675)  |
| <b>Net fee and commission income</b>  | 26                | <b>1,369,867</b>                                | <b>463,795</b>                                   | <b>1,195,278</b>                                | <b>398,936</b>                                   |
| <i>Trading gains, net</i>   | 5                 | 697,949   | 32,193   | 242,739   | 247,228  |
| <i>Foreign exchange gains, net</i>  |                   | 118,025   | 66,289   | -   | -  |
| <i>Premium income from insurance business</i>   |                   | 117,868   | 39,258   | 94,099  | 33,510   |
| <i>Other operating income</i>   |                   | 100,357   | 35,114   | 83,585  | 18,733   |
| <b>Other operating income</b>   |                   | <b>1,034,199</b>                                | <b>172,854</b>                                   | <b>420,423</b>                                  | <b>299,471</b>                                   |
| <b>Total operating income</b>   |                   | <b>6,262,712</b>                                | <b>1,980,969</b>                                 | <b>4,258,784</b>                                | <b>1,597,843</b>                                 |
| <i>Impairment losses, net</i>   | 7,8,9,11,12,13,20 | (1,418,158)                                     | (387,550)  | (300,429)                                       | (68,417)   |
| <i>Salaries and wages</i>   |                   | (743,699)                                       | (262,201)  | (692,736)                                       | (231,660)  |
| <i>Credit card rewards and promotion expenses</i>                                       |                   | (227,253)                                       | (82,401)   | -205,241  | (80,032)   |
| <i>Employee benefits</i>  | 20                | (183,564)                                       | (64,198)   | (175,858)                                       | (64,131)   |
| <i>Depreciation and amortization</i>  | 12                | (146,283)                                       | (48,073)   | (132,207)                                       | (46,142)   |
| <i>Taxes and duties other than on income</i>  |                   | (101,525)                                       | (19,541)   | (54,110)  | (20,358)   |
| <i>Communication expenses</i>   |                   | (101,304)                                       | (34,530)   | (103,255)                                       | (37,948)   |
| <i>Rent expenses</i>  |                   | (94,911)  | (30,318)   | (79,991)  | (28,932)   |
| <i>Foreign exchange loss, net</i>   | 12                | -   | -  | (119,961)                                       | (239,881)  |
| <i>Other operating expenses</i>   | 27                | (479,621)                                       | (171,166)  | (499,299)                                       | (163,158)  |
| <b>Total operating expenses</b>   |                   | <b>(3,496,318)</b>                              | <b>(1,099,978)</b>                               | <b>(2,363,087)</b>                              | <b>(980,659)</b>                                 |
| <b>Income before tax</b>  |                   | <b>2,766,394</b>                                | <b>880,991</b>                                   | <b>1,895,697</b>                                | <b>617,184</b>                                   |
| Taxation charge   | 19                | (613,919)                                       | (184,961)  | (359,652)                                       | (128,831)  |
| <b>Net income for the period</b>  |                   | <b>2,152,475</b>                                | <b>696,030</b>                                   | <b>1,536,045</b>                                | <b>488,353</b>                                   |
| <b>Other comprehensive income:</b>  |                   |   |  |   |  |
| Foreign currency translation differences for foreign operations                         | 21                | (516)   | 2,902  | 18,572  | (22,892)   |
| Net gain/(losses) on hedges of net investments in foreign operations                    | 21                | -   | -  | (7,415)   | 15,693   |
| Cash flow hedges:   |                   |   |  |   |  |
| Effective portion of changes in fair value  | 21                | 17,220  | (189)  | 2,541   | (423)  |
| Net amount transferred to income  | 21                | (80,646)  | -  | (36,002)  | -  |
| Fair value reserves (available-for-sale financial assets):                              |                   |   |  |   |  |
| Net change in fair values   | 21                | 1,354,364                                       | 752,073  | (88,511)  | 486,883  |
| Net amount transferred to income  | 21                | (114,463)                                       | (804)  | (141,547)                                       | (137,043)  |
| <b>Other comprehensive income for the period, net of tax</b>                            |                   | <b>1,175,959</b>                                | <b>753,982</b>                                   | <b>(252,362)</b>                                | <b>342,218</b>                                   |
| <b>Total comprehensive income for the period</b>  |                   | <b>3,328,434</b>                                | <b>1,450,012</b>                                 | <b>1,283,683</b>                                | <b>830,571</b>                                   |
| <b>Net income attributable to:</b>  |                   |   |  |   |  |
| <i>Equity holders of the Bank</i>   |                   | 2,141,523                                       | 692,864  | 1,527,755                                       | 485,303  |
| <i>Minority interest</i>  |                   | 10,952  | 3,166  | 8,290   | 3,050  |
|   |                   | <b>2,152,475</b>                                | <b>696,030</b>                                   | <b>1,536,045</b>                                | <b>488,353</b>                                   |
| <b>Total comprehensive income attributable to:</b>                                      |                   |   |  |   |  |
| <i>Equity holders of the Bank</i>   |                   | 3,317,452                                       | 1,446,827  | 1,275,403                                       | 827,531  |
| <i>Minority interest</i>  |                   | 10,982  | 3,185  | 8,280   | 3,040  |
|   |                   | <b>3,328,434</b>                                | <b>1,450,012</b>                                 | <b>1,283,683</b>                                | <b>830,571</b>                                   |
| <b>Weighted average number of shares with a face value of Kr 1 each</b>                 | 21                | <b>420 billions</b>                             | <b>420 billions</b>                              | <b>256.7 billions</b>                           | <b>350 billions</b>                              |
| <b>Basic and diluted earnings per share (full TL amount per TL'000 face value each)</b> |                   | <b>509.9</b>                                    | <b>165.0</b>                                     | <b>595.2</b>                                    | <b>138.7</b>                                     |

The notes on pages 5 to 73 are integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**For The Nine-Month Period Ended 30 September 2009**

(Currency: Thousands of Turkish Lira (TL))

|  | Notes | Share Capital    | Share Premium | Minority Interest | Unrealised<br>Gains/(Losses) on<br>Available-for-Sale<br>Assets | Hedging<br>Reserve | Translation<br>Reserve | Legal Reserves | Retained Earnings | Total<br>Shareholders'<br>Equity and<br>Minority Interest |
|--|-------|------------------|---------------|-------------------|---|--------------------|------------------------|----------------|-------------------|---|
| <b>Balances at 31 December 2007</b>  |       | <u>3,046,371</u> | <u>-</u>      | <u>23,410</u>     | <u>189,382</u>  | <u>31,464</u>      | <u>6,709</u>           | <u>172,678</u> | <u>3,781,754</u>  | <u>7,251,768</u>  |
| Collections from shareholders for capital increase   | 21    | 2,100,000        | 11,880        | -                 | -   | -                  | -                      | -              | -                 | 2,111,880   |
| Payment for founder shares repurchased   | 21    | -                | -             | -                 | -   | -                  | -                      | -              | (1,434,233)       | (1,434,233)   |
| Transfer to legal reserves   |       | -                | -             | -                 | -   | -                  | -                      | 115,833        | (115,833)         | -   |
| Foreign exchange difference on foreign currency legal reserves                             | 21    | -                | -             | -                 | -   | -                  | -                      | 146            | -                 | 146   |
| Net unrealised market value losses from available-for-sale portfolio                       | 21    | -                | -             | (10)              | (88,501)  | -                  | -                      | -              | -                 | (88,511)  |
| Net gains on available-for-sale assets transferred to the income statement on disposal     | 21    | -                | -             | -                 | (141,547)   | -                  | -                      | -              | -                 | (141,547)   |
| Foreign currency translation differences for foreign operations                            |       | -                | -             | -                 | -   | -                  | 11,011                 | -              | -                 | 11,011  |
| Net fair value gains from cash flow hedges   | 21    | -                | -             | -                 | -   | 2,541              | -                      | -              | -                 | 2,541   |
| Net fair value gains from cash flow hedges transferred to the income statement on disposal | 21    | -                | -             | -                 | -   | (36,002)           | -                      | -              | -                 | (36,002)  |
| Net income for the nine-month period   |       | -                | -             | 8,290             | -   | -                  | -                      | -              | 1,527,735         | 1,536,045   |
| <b>Balances at 30 September 2008</b>   |       | <u>5,146,371</u> | <u>11,880</u> | <u>31,690</u>     | <u>(40,666)</u>   | <u>(1,997)</u>     | <u>17,720</u>          | <u>288,657</u> | <u>3,759,443</u>  | <u>9,213,098</u>  |
| Foreign exchange difference on foreign currency legal reserves                             |       | -                | -             | -                 | -   | -                  | -                      | 757            | -                 | 757   |
| Net unrealised market value gains from available-for-sale portfolio                        | 21    | -                | -             | 1                 | 138,141   | -                  | -                      | -              | -                 | 138,142   |
| Net losses on available-for-sale assets transferred to the income statement on disposal    | 21    | -                | -             | -                 | 80,276  | -                  | -                      | -              | -                 | 80,276  |
| Foreign currency translation differences for foreign operations                            | 21    | -                | -             | -                 | -   | -                  | 18,267                 | -              | -                 | 18,267  |
| Net fair value gains from cash flow hedges   | 21    | -                | -             | -                 | -   | 62,995             | -                      | -              | -                 | 62,995  |
| Net income for the three-month period  |       | -                | -             | 3,510             | -   | -                  | -                      | -              | 386,460           | 389,970   |
| <b>Balances at 31 December 2008</b>  |       | <u>5,146,371</u> | <u>11,880</u> | <u>35,201</u>     | <u>177,751</u>  | <u>60,998</u>      | <u>35,987</u>          | <u>289,414</u> | <u>4,145,903</u>  | <u>9,903,505</u>  |
| Dividends paid   |       | -                | -             | -                 | -   | -                  | -                      | -              | (275,000)         | (275,000)   |
| Foreign exchange difference on foreign currency legal reserves                             | 21    | -                | -             | -                 | -   | -                  | -                      | 122            | -                 | 122   |
| Transfer to legal reserves   |       | -                | -             | -                 | -   | -                  | -                      | 94,109         | (94,109)          | -   |
| Net unrealised market value gains from available-for-sale portfolio                        | 21    | -                | -             | 30                | 1,354,334   | -                  | -                      | -              | -                 | 1,354,364   |
| Net gains on available-for-sale assets transferred to the income statement on disposal     | 21    | -                | -             | -                 | (114,463)   | -                  | -                      | -              | -                 | (114,463)   |
| Foreign currency translation differences for foreign operations                            |       | -                | -             | -                 | -   | -                  | (638)                  | -              | -                 | (638)   |
| Net fair value gains from cash flow hedges   | 21    | -                | -             | -                 | -   | 17,220             | -                      | -              | -                 | 17,220  |
| Net fair value gains from cash flow hedges transferred to the income statement on disposal | 21    | -                | -             | -                 | -   | (80,646)           | -                      | -              | -                 | (80,646)  |
| Adjustment to retained earnings for a new consolidated affiliate                           |       | -                | -             | (59)              | -   | -                  | -                      | -              | (5,449)           | (5,508)   |
| Net income for the nine-month period   |       | -                | -             | 10,952            | -   | -                  | -                      | -              | 2,141,523         | 2,152,475   |
| <b>Balances at 30 September 2009</b>   |       | <u>5,146,371</u> | <u>11,880</u> | <u>46,124</u>     | <u>1,417,622</u>  | <u>(2,428)</u>     | <u>35,349</u>          | <u>383,645</u> | <u>5,912,868</u>  | <u>12,951,431</u>   |

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Nine-Month Period Ended 30 September 2009**

(Currency: Thousands of Turkish Lira (TL))

|   | <u>Notes</u> | <u>30 September 2009</u> | <u>30 September 2008</u> |
|---|--------------|--------------------------|--------------------------|
| <b>Cash flows from operating activities:-</b>                           |              |                          |                          |
| Interests and commissions received                                      |              | 7,093,800                | 5,760,657                |
| Interest expenses paid  |              | (4,772,376)              | (4,166,831)              |
| Other operating activities, net   |              | 649,138                  | 134,434                  |
| Cash payments to employees and suppliers                                |              | (1,925,793)              | (1,788,844)              |
|   |              | <u>1,044,769</u>         | <u>(60,584)</u>          |
| <b>(Increase)/decrease in operating assets:-</b>                        |              |                          |                          |
| Loans and advances to banks   |              | (2,658,600)              | (641,388)                |
| Balances with central banks   |              | (731,814)                | 2,689,599                |
| Financial assets at fair value through profit or loss                   |              | 148,816                  | 424,658                  |
| Loans and advances to customers   |              | (1,352,626)              | (6,509,406)              |
| Consumer loans  |              | (524,103)                | (2,943,243)              |
| Other assets  |              | (443,947)                | (630,079)                |
| <b>Increase/(decrease) in operating liabilities:-</b>                   |              |                          |                          |
| Deposits from banks   |              | 728,799                  | (334,681)                |
| Deposits from customers   |              | 5,712,550                | 9,860,767                |
| Obligations under repurchase agreements                                 |              | 1,072,187                | (365,515)                |
| Other liabilities   |              | 778,036                  | 329,229                  |
|   |              | <u>3,774,067</u>         | <u>1,819,357</u>         |
| <b>Net cash flow from operating activities before income taxes paid</b> |              | <b>3,774,067</b>         | <b>1,819,357</b>         |
| <b>Income taxes paid</b>  | <i>19</i>    | <b>(592,736)</b>         | <b>(111,892)</b>         |
| <b>Tax refunds collected</b>  |              | <b>-</b>                 | <b>137,256</b>           |
|   |              | <u>3,181,331</u>         | <u>1,844,721</u>         |
| <b>Net cash flow from operating activities</b>                          |              | <b>3,181,331</b>         | <b>1,844,721</b>         |
| <b>Cash flows from investing activities:-</b>                           |              |                          |                          |
| Net increase in security investments                                    |              | (5,194,691)              | (4,257,789)              |
| Interest received   |              | 2,015,082                | 2,055,142                |
| Increase in investments in equity participations, net                   |              | (562)                    | -                        |
| Dividends received  |              | 2,744                    | 2,535                    |
| Proceeds from sale of tangible assets                                   |              | 21,642                   | 130,068                  |
| Purchase of tangible assets   |              | (227,377)                | (215,914)                |
|   |              | <u>(3,383,162)</u>       | <u>(2,285,958)</u>       |
| <b>Net cash flow used in investing activities</b>                       |              | <b>(3,383,162)</b>       | <b>(2,285,958)</b>       |
| <b>Cash flows from financing activities:-</b>                           |              |                          |                          |
| Increase in loans and advances from banks, net                          |              | 1,276,865                | 1,664,783                |
| Increase in subordinated liabilities, net                               |              | 81,916                   | 45,070                   |
| Dividends paid  |              | (275,000)                | -                        |
| Equity instruments issued   |              | -                        | 2,111,880                |
| Payment for founder shares repurchased                                  |              | -                        | (1,434,233)              |
|   |              | <u>1,083,781</u>         | <u>2,387,500</u>         |
| <b>Net cash flow from financing activities</b>                          |              | <b>1,083,781</b>         | <b>2,387,500</b>         |
| <b>Effect of exchange rate changes</b>                                  |              | <b>118,025</b>           | <b>(119,961)</b>         |
|   |              | <u>999,975</u>           | <u>1,826,302</u>         |
| <b>Net increase in cash and cash equivalents</b>                        |              | <b>999,975</b>           | <b>1,826,302</b>         |
| Cash and cash equivalents at the beginning of the period                |              | 7,145,989                | 4,293,819                |
|   |              | <u>7,145,989</u>         | <u>4,293,819</u>         |
| <b>Cash and cash equivalents at the end of the period</b>               | <i>2</i>     | <b>8,145,964</b>         | <b>6,120,121</b>         |
|   |              | <u>8,145,964</u>         | <u>6,120,121</u>         |

The notes on pages 5 to 73 are an integral part of these consolidated financial statements.

## **Overview of the Bank**

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the nine-month period ended 30 September 2009 comprise the Bank and its affiliates (the Affiliates) and their interest in associates.

### **(a) Brief History**

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and “Articles of Association” was published in the official gazette dated 25 April 1946. The Bank provides corporate, commercial and retail banking services through a network of 609 domestic branches, five foreign branches, four representative offices abroad and 128 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Moscow. The Bank and its affiliates in total have 18,908 employees. The Bank’s head office is located at Levent Nispetiye Mahallesi Aydar Caddesi 2 Beşiktaş 34340 İstanbul.

### **(b) Ownership**

The Companies owned by Doğu Holding AŞ, called as Doğu Group, currently holds 30.52% and “GE Araştırma ve Müşavirlik Limited Şti.” of the General Electric (GE) Group holds 20.85% of the issued capital.

## **Significant accounting policies**

### **(a) Statement of compliance**

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulatory and Supervisory Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank’s foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). The accompanying consolidated financial statements are authorized for issue by the directors on 6 November 2009.

### **(b) Basis of preparation**

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank’s functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss, available-for-sale financial assets and tangible assets held for sale. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The accounting policies set out below have been applied consistently by the Bank and its affiliates to all periods presented in these consolidated financial statements.

## **Significant accounting policies (continued)**

### **(c) Use of estimates and judgements**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 7, 10, 17, 22 and 23.

### **(d) Basis of consolidation**

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its affiliates and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

#### *Affiliates*

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### *Associates*

Associates are those entities in which the Bank and its affiliates have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its affiliates' share of the total recognized gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its affiliates share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its affiliates has incurred obligations in respect of the associate.

#### *Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Bank and the special purpose entity indicates that the special purpose entity is controlled by the Bank.

#### *Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are

**Significant accounting policies (continued)**

eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

**(e) Foreign currency**

*Foreign currency transactions*

Transactions are recorded in TL, which represents its functional currency. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in the statement of comprehensive income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of comprehensive income as realized during the period.

*Financial statements of foreign operations*

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of comprehensive income.

*Hedge of net investment in a foreign operation see accounting policy (i).*

**(f) Tangible assets and related depreciation**

*Owned assets*

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (r)).

*Leased assets*

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (r)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to statement of comprehensive income.

## **Significant accounting policies (continued)**

### *Subsequent Expenditure*

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the statement of comprehensive income as incurred.

### *Depreciation*

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method, one of the accelerated depreciation methods.

The estimated useful lives are as follows:

| <i>Tangible assets</i>            | <i>Estimated useful lives (years)</i> | <i>Depreciation rates (%) for the year 2005 and after</i> | <i>Depreciation rates (%) for the years before 2005</i> |
|-----------------------------------|---------------------------------------|---|---|
| Buildings                         | 50                                    | 4   | 2   |
| Furniture, fixture and equipments | 4-20                                  | 10-50   | 5-25  |
| Leasehold improvements            | 5-10                                  | 10-20   | 5   |

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

### **(g) Goodwill**

Goodwill represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative (negative goodwill), it is recognized immediately in the statement of comprehensive income. Goodwill is assessed annually by using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments, carrying value of net assets, whether there is any indication that goodwill may be impaired. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than its carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the statement of comprehensive income.

### **(h) Financial instruments**

#### *Classification*

*Financial instruments at fair value through profit or loss* are those that are principally held for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

## **Significant accounting policies (continued)**

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

*Available-for-sale assets* are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

### *Change in accounting policy*

In October 2008, the IASB issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term, as follows:

- If the financial asset would have met the definition of loans and receivables, if the financial asset had not been required to be classified as fair value through profit or loss at initial recognition, then it may be reclassified if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the financial assets at fair value through profit or loss category only in 'rare circumstances'.

The amendments are effective retrospectively from 1 July 2008.

### *Recognition*

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the transaction date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized on the date they are originated.

### *Measurement*

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortized cost.

### **Significant accounting policies (continued)**

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

#### *Fair value measurement principles*

The fair values of financial instruments are based on their quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

#### *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair values of financial instruments at fair value are recognized in the statement of comprehensive income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

#### *Specific instruments*

*Cash and balances with central banks:* Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

*Investments:* Investments held for the purpose of short-term profit taking are classified as trading instruments. Debt investments that the Bank and its affiliates have the intent and ability to hold to maturity are classified as held-to-maturity assets.

*Loans and advances to banks and customers:* Loans and advances provided by the Bank and its affiliates are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

*Financial lease receivables:* Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as financial leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognized. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognized over the term of the lease using the effective interest rate method. Financial lease receivables are included in loans and advances to customers.

*Bonds payable:* Bonds issued by the Bank and its affiliates are classified as non-trading liabilities.

## **Significant accounting policies (continued)**

### *Derecognition*

A financial asset is derecognised when the control over the contractual rights that comprise that asset, is lost. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognized on the days that they are transferred by the Bank and its affiliates.

### **(i) Derivatives held for risk management purposes**

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

#### *Cash flow hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the result of statement of comprehensive income, the effective portion of changes in the fair value of the derivative are recognised directly in the shareholders' equity. The amount recognised in the shareholders' equity is removed and included in the statement of comprehensive income in the same period as the hedged cash flows affect the statement of comprehensive income under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of comprehensive income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the shareholders' equity remains there until the forecast transaction affects the statement of comprehensive income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the shareholders' equity is recognized immediately in the statement of comprehensive income.

#### *Net investment hedge*

When a derivative or a non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of comprehensive income. The amount recognized in the shareholders' equity is removed and included in the statement of comprehensive income on disposal of the foreign operation.

## **Significant accounting policies (continued)**

### *Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

### **(j) *Securities borrowing and lending business***

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

### **(k) *Repurchase and resale agreements over investments***

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements”, a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

### **(l) *Items held in trust***

Assets, other than cash deposits, held by the Bank in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

### **(m) *Financial guarantees***

Financial guarantees are contracts that require the Bank and its affiliates to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

**Significant accounting policies (continued)**

**(n) Employee benefits**

*(i) Defined benefit plan*

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan (“the Plan”) for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (“the Fund”). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

|                               | <b>30 September 2009</b> |                 |
|-------------------------------|--------------------------|-----------------|
|                               | <b>Employer</b>          | <b>Employee</b> |
|                               | <u>%</u>                 | <u>%</u>        |
| Pension contributions         | 15.5                     | 10.0            |
| Medical benefit contributions | 6.0                      | 5.0             |

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation (“SSF”) (“pension and medical benefits transferable to SSF”) (see Note 20) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation (“excess benefits”).

*a) Pension and medical benefits transferable to SSF*

As discussed in Note 20, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund’s obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation at 31 December 2008 as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: “Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations” (“New Law”). The pension disclosures set out in Note 20, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF 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 statement of comprehensive income.

*b) Excess benefits not transferable to SSF*

The excess benefits, which are not subject to the transfer, are accounted in accordance with IAS 19, “Employee Benefits”. The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is a floating discount rate between 17.41% - 10.51% as of 31 December 2008.

**Significant accounting policies (continued)**

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

*(ii) Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

Provision is made for the present value of the liability calculated using the projected unit credit method and all actuarial gains and losses are recognized immediately in the consolidated statement of comprehensive income.

*(iii) Short-term employee benefits*

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

**(o) Taxes on income**

Taxes on income for the year comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liability and asset are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority.

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in the statement of comprehensive income together with the deferred gains or losses that are realized.

**(p) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**Significant accounting policies (continued)**

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

**(q) Earnings per share**

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing the net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

**(r) Impairment**

Financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

*Loans and receivables and held-to-maturity instruments*

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument’s original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognized in the statement of comprehensive income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the statement of comprehensive income.

*Financial assets remeasured to fair value*

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

### **Significant accounting policies (continued)**

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of comprehensive income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

#### **(s) Income and expense recognition**

##### *Interest income and expense*

Except for the interest income on overdue loans, interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income on overdue loans that are under legal follow up is recognized on a cash basis. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

##### *Fee and commission*

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

##### *Net trading income*

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss and available-for-sale.

##### *Dividend income*

Dividend income is recognized in the statement of comprehensive income when received.

##### *Insurance business*

*Premium income:* For short-term insurance contracts, premiums are recognized as revenue (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature (“DPF”), are not recognized as revenue, insurance premiums for such contracts are recognized directly as liabilities.

### **Significant accounting policies (continued)**

*Unearned premium reserve:* Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on daily pro-rata basis. The change in the provision for unearned premium is recognized in the statement of comprehensive income in the order that revenue is recognized over the period of risk.

*Claims and provision for “outstanding” claims:* Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims (“IBNR”) are also provided for under the provision for outstanding claims.

*Provision for future policy benefit:* Provision for future policy benefits are the difference between the net present values of premiums collected in return of the risk covered by the company and the liabilities to policyholders. Provision for future benefits is the sum of the remainder of collected premiums and accumulated life insurance provision. Provision for future benefits is computed on the basis of actuarial mortality assumptions as approved by the Turkish Treasury Insurance Department, which are applicable for Turkish Insurance Companies.

*Liability adequacy test:* At each date of the statement of financial position, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition cost. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to the statement of comprehensive income.

*Income generated from pension business:* Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognized in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

**(t) Non-current assets held for sale**

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**Significant accounting policies (continued)**

**(u) Segment reporting**

A segment is a distinguishable component of the Bank and its affiliates that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**(v) New standards and interpretations not yet adopted**

Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in income. The amendments to IAS 27, which become mandatory for the Bank's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements. These amendments have not been applied in preparing these consolidated financial statements.

**(w) Early adopted standards and interpretations**

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the Bank's 2009 consolidated financial statements and will be applicable retrospectively. The Bank early adopted this interpretation in the accompanying consolidated financial statements by using one of the relevant approach that the future cost for the obligation to deliver the award should be recognised as an expense at the time of gaining the awards.
- Revised IAS *Presentation of Financial Statements (2007)* introduces the term "total comprehensive income" which represents the changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the statement of comprehensive income and all non-owner changes in equity in a single statement), or in an statement of comprehensive income and a separate statement of comprehensive income according to revised IAS 1, which becomes mandatory for the Bank's 2009 financial statements. The Bank early adopted this revision in the accompanying consolidated financial statements by using the single statement of comprehensive income approach.

**Index for the notes to the consolidated financial statements:**

***Note description***

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## 1 Segment reporting

Segment information is presented in respect of the Bank and its affiliates' geographical and business segments. The primary format, business segments, is based on the Bank and its affiliates. Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes.

### 1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in Holland, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

|         | <i>30 September 2009</i>                       |                         |                              |                           |                                |
|---------|--|-------------------------|------------------------------|---------------------------|--------------------------------|
|         | <i>Loans and<br/>Advances to<br/>Customers</i> | <i>Total<br/>Assets</i> | <i>Total<br/>Liabilities</i> | <i>Non-Cash<br/>Loans</i> | <i>Capital<br/>Expenditure</i> |
| Turkey  | 52,244,170                                     | 96,874,071              | 71,438,180                   | 13,020,767                | 196,651                        |
| England | 11,864   | 3,935,001               | 8,899,823                    | 362,777                   | -                              |
| Germany | 8,559  | 2,892,421               | 2,922,923                    | 83,736                    | 270                            |
| Romania | 948,668  | 1,916,844               | 1,243,785                    | 92,228                    | 5,861                          |
| Holland | 460,811  | 1,093,695               | 1,873,688                    | 139,407                   | 799                            |
| Russia  | 402,443  | 944,462                 | 222,097                      | 98,787                    | 876                            |
| USA     | 8,321  | 836,297                 | 6,233,567                    | 316,841                   | -                              |
| France  | 3,091  | 700,547                 | 244,854                      | 163,512                   | -                              |
| Others  | 678,935  | 1,896,248               | 5,059,238                    | 1,113,006                 | -                              |
|         | <u>54,766,862</u>                              | <u>111,089,586</u>      | <u>98,138,155</u>            | <u>15,391,061</u>         | <u>204,457</u>                 |

|         | <i>31 December 2008</i>                        |                         |                              |                           |                                |
|---------|--|-------------------------|------------------------------|---------------------------|--------------------------------|
|         | <i>Loans and<br/>Advances to<br/>Customers</i> | <i>Total<br/>Assets</i> | <i>Total<br/>Liabilities</i> | <i>Non-Cash<br/>Loans</i> | <i>Capital<br/>Expenditure</i> |
| Turkey  | 51,629,704                                     | 87,465,358              | 67,511,825                   | 11,639,580                | 351,025                        |
| Holland | 223,744  | 2,091,340               | 2,172,863                    | 506,634                   | 2,198                          |
| England | 24,218   | 1,910,672               | 3,626,436                    | 340,765                   | -                              |
| Germany | 18,224   | 1,556,435               | 2,591,540                    | 100,624                   | 68                             |
| Romania | 768,131  | 1,365,104               | 726,893                      | 68,874                    | 34,084                         |
| Russia  | 497,323  | 1,161,158               | 160,828                      | 139,411                   | 391                            |
| USA     | 44,820   | 876,610                 | 6,863,025                    | 326,507                   | -                              |
| France  | 11,325   | 125,182                 | 111,686                      | 190,346                   | -                              |
| Others  | 652,580  | 1,636,479               | 4,519,737                    | 1,254,316                 | -                              |
|         | <u>53,870,069</u>                              | <u>98,188,338</u>       | <u>88,284,833</u>            | <u>14,567,057</u>         | <u>387,766</u>                 |

Total geographic sector risk concentrations of net income are presented in the table below:

|            | <i>Nine-month<br/>period ended<br/>30 September 2009</i> | <i>Three-month<br/>period ended<br/>30 September 2009</i> | <i>Nine-month<br/>period ended<br/>30 September 2008</i> | <i>Three-month<br/>period ended<br/>30 September 2008</i> |
|------------|--|---|--|---|
| Turkey     | 1,935,901  | 595,464   | 1,356,529  | 427,243   |
| Luxembourg | 105,149  | 63,379  | 66,964   | 18,188  |
| Malta      | 72,560   | 27,894  | 11,904   | 1,854   |
| Holland    | 24,875   | 7,916   | 76,056   | 30,270  |
| Others     | 13,990   | 1,377   | 24,592   | 10,798  |
|            | <u>2,152,475</u>   | <u>696,030</u>  | <u>1,536,045</u>   | <u>488,353</u>  |

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2009

(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

**1.2 Business segments**

The main business segments are banking, leasing, insurance, factoring, other financial and non-financial sectors. Banking segment information is detailed further to retail banking and commercial, corporate and small and medium size enterprises (SME) banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

| <i>30 September 2009</i>   | <i>Retail<br/>Banking</i> | <i>Commercial,<br/>Corporate &amp;<br/>SME Banking</i> | <i>Other<br/>Operations</i> | <i>Eliminations</i> | <i>Total<br/>Banking</i> | <i>Leasing</i>   | <i>Insurance</i> | <i>Factoring</i> | <i>Other<br/>Financial</i> | <i>Other Non-<br/>Financial</i> | <i>Combined</i>    | <i>Eliminations</i> | <i>Total</i>       |
|--|---------------------------|--|-----------------------------|---------------------|--------------------------|------------------|------------------|------------------|----------------------------|---------------------------------|--------------------|---------------------|--------------------|
| Operating income   | 1,892,398                 | 1,919,199  | 2,144,995                   | -                   | 5,956,592                | 109,477          | 136,969          | 26,095           | 29,231                     | 21,480                          | 6,279,844          | (17,132)            | 6,262,712          |
| Operating expenses   | (916,037)                 | (617,637)  | (1,801,907)                 | -                   | (3,335,581)              | (54,584)         | (61,642)         | (16,629)         | (26,659)                   | (20,014)                        | (3,515,109)        | 18,791              | (3,496,318)        |
| <b>Income from operations</b>  | <b>976,361</b>            | <b>1,301,562</b>                                       | <b>343,088</b>              | -                   | <b>2,621,011</b>         | <b>54,893</b>    | <b>75,327</b>    | <b>9,466</b>     | <b>2,572</b>               | <b>1,466</b>                    | <b>2,764,735</b>   | <b>1,659</b>        | <b>2,766,394</b>   |
| Taxation charge  | -                         | -  | (583,151)                   | -                   | (583,151)                | (13,722)         | (14,711)         | (1,928)          | (117)                      | (290)                           | (613,919)          | -                   | (613,919)          |
| <b>Net income for the period</b>   | <b>976,361</b>            | <b>1,301,562</b>                                       | <b>(240,063)</b>            | -                   | <b>2,037,860</b>         | <b>41,171</b>    | <b>60,616</b>    | <b>7,538</b>     | <b>2,455</b>               | <b>1,176</b>                    | <b>2,150,816</b>   | <b>1,659</b>        | <b>2,152,475</b>   |
| Segment assets   | 17,174,276                | 37,172,858   | 51,969,257                  | (658,561)           | 105,657,830              | 1,821,180        | 1,624,006        | 1,016,777        | 48,266                     | 15,398                          | 110,183,457        | (694,514)           | 109,488,943        |
| Investments in equity participations                                     | -                         | -  | 403,072                     | -                   | 403,072                  | -                | 275              | 9,641            | 5,669                      | 1,158                           | 419,815            | (351,912)           | 67,903             |
| Unallocated assets   | -                         | -  | 1,335,216                   | -                   | 1,335,216                | 123,950          | 13,700           | 2,917            | 5,167                      | 1,539                           | 1,482,489          | 50,251              | 1,532,740          |
| <b>Total assets</b>  | <b>17,174,276</b>         | <b>37,172,858</b>                                      | <b>53,707,545</b>           | <b>(658,561)</b>    | <b>107,396,118</b>       | <b>1,945,130</b> | <b>1,637,981</b> | <b>1,029,335</b> | <b>59,102</b>              | <b>18,095</b>                   | <b>112,085,761</b> | <b>(996,175)</b>    | <b>111,089,586</b> |
| Segment liabilities  | 36,623,564                | 24,022,479   | 34,768,214                  | (658,561)           | 94,755,696               | 1,623,827        | 1,420,293        | 975,007          | 7,653                      | 7,036                           | 98,789,512         | (651,357)           | 98,138,155         |
| Shareholders' equity and minority interest                               | -                         | -  | 12,640,422                  | -                   | 12,640,422               | 321,303          | 217,688          | 54,328           | 51,449                     | 11,059                          | 13,296,249         | (344,818)           | 12,951,431         |
| <b>Total liabilities, shareholders' equity and<br/>minority interest</b> | <b>36,623,564</b>         | <b>24,022,479</b>                                      | <b>47,408,636</b>           | <b>(658,561)</b>    | <b>107,396,118</b>       | <b>1,945,130</b> | <b>1,637,981</b> | <b>1,029,335</b> | <b>59,102</b>              | <b>18,095</b>                   | <b>112,085,761</b> | <b>(996,175)</b>    | <b>111,089,586</b> |

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2009

(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

|  | <i>Retail<br/>Banking</i> | <i>Commercial<br/>Corporate &amp;<br/>SME Banking</i> | <i>Other<br/>Operations</i> | <i>Eliminations</i> | <i>Total<br/>Banking</i> | <i>Leasing</i>   | <i>Insurance</i> | <i>Factoring</i> | <i>Other<br/>Financial</i> | <i>Other Non-<br/>Financial</i> | <i>Combined</i>   | <i>Eliminations</i> | <i>Total</i>      |
|--|---------------------------|---|-----------------------------|---------------------|--------------------------|------------------|------------------|------------------|----------------------------|---------------------------------|-------------------|---------------------|-------------------|
| <b><i>30 September 2008</i></b>  |                           |   |                             |                     |                          |                  |                  |                  |                            |                                 |                   |                     |                   |
| Operating income   | 1,538,570                 | 1,264,291   | 1,197,096                   | -                   | 3,999,957                | 80,348           | 112,764          | 20,337           | 26,340                     | 19,215                          | 4,258,961         | (177)               | 4,258,784         |
| Operating expenses   | (722,134)                 | (397,712)   | (1,083,879)                 | -                   | (2,203,725)              | (23,546)         | (56,435)         | (13,864)         | (24,824)                   | (18,567)                        | (2,340,961)       | (22,126)            | (2,363,087)       |
| <b>Income from operations</b>  | <b>816,436</b>            | <b>866,579</b>  | <b>113,217</b>              | <b>-</b>            | <b>1,796,232</b>         | <b>56,802</b>    | <b>56,329</b>    | <b>6,473</b>     | <b>1,516</b>               | <b>648</b>                      | <b>1,918,000</b>  | <b>(22,303)</b>     | <b>1,895,697</b>  |
| Taxation credit/(charge)   | -                         | -   | (346,361)                   | -                   | (346,361)                | 4                | (11,463)         | (1,430)          | (337)                      | (215)                           | (359,802)         | 150                 | (359,652)         |
| <b>Net income for the period</b>   | <b>816,436</b>            | <b>866,579</b>  | <b>(233,144)</b>            | <b>-</b>            | <b>1,449,871</b>         | <b>56,806</b>    | <b>44,866</b>    | <b>5,043</b>     | <b>1,179</b>               | <b>433</b>                      | <b>1,558,198</b>  | <b>(22,153)</b>     | <b>1,536,045</b>  |
| <b><i>31 December 2008</i></b>   |                           |   |                             |                     |                          |                  |                  |                  |                            |                                 |                   |                     |                   |
| Segment assets   | 16,457,561                | 36,550,189  | 40,874,460                  | (678,652)           | 93,203,558               | 2,200,551        | 1,193,403        | 742,676          | 45,231                     | 14,171                          | 97,399,590        | (673,231)           | 96,726,359        |
| Investments in equity participations                                     | -                         | -   | 303,103                     | -                   | 303,103                  | 10,000           | 275              | 9,635            | 5,893                      | 1,158                           | 330,064           | (259,627)           | 70,437            |
| Unallocated assets   | -                         | -   | 1,323,625                   | -                   | 1,323,625                | 18,290           | 11,187           | 2,068            | 4,669                      | 1,083                           | 1,360,922         | 30,620              | 1,391,542         |
| <b>Total assets</b>  | <b>16,457,561</b>         | <b>36,550,189</b>                                     | <b>42,501,188</b>           | <b>(678,652)</b>    | <b>94,830,286</b>        | <b>2,228,841</b> | <b>1,204,865</b> | <b>754,379</b>   | <b>55,793</b>              | <b>16,412</b>                   | <b>99,090,576</b> | <b>(902,238)</b>    | <b>98,188,338</b> |
| Segment liabilities  | 31,339,548                | 24,809,320  | 29,731,912                  | (678,652)           | 85,202,128               | 1,943,201        | 1,047,990        | 707,589          | 6,431                      | 6,526                           | 88,913,865        | (629,032)           | 88,284,833        |
| Shareholders' equity and minority interest                               | -                         | -   | 9,628,158                   | -                   | 9,628,158                | 285,640          | 156,875          | 46,790           | 49,362                     | 9,886                           | 10,176,711        | (273,206)           | 9,903,505         |
| <b>Total liabilities, shareholders' equity and<br/>minority interest</b> | <b>31,339,548</b>         | <b>24,809,320</b>                                     | <b>39,360,070</b>           | <b>(678,652)</b>    | <b>94,830,286</b>        | <b>2,228,841</b> | <b>1,204,865</b> | <b>754,379</b>   | <b>55,793</b>              | <b>16,412</b>                   | <b>99,090,576</b> | <b>(902,238)</b>    | <b>98,188,338</b> |

## 2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 30 September 2009 and 2008, included in the accompanying consolidated statements of cash flows are as follows:

|  | <i>30 September</i><br><u>2009</u> | <i>30 September</i><br><u>2008</u> |
|--|------------------------------------|------------------------------------|
| Cash at branches   | 505,857                            | 647,343                            |
| Loans and advances to banks with original maturity periods of less than three months | <u>7,640,107</u>                   | <u>5,472,778</u>                   |
|  | <u>8,145,964</u>                   | <u>6,120,121</u>                   |

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğu Holding AŞ and GE and all their subsidiaries, and their ultimate owners, directors and executive officers are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

### 3.1 Outstanding balances

|   | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|---|------------------------------------|-----------------------------------|
| <i>Statement of financial position</i>      |                                    |                                   |
| Loans and advances to customers             | <u>290,938</u>                     | <u>289,145</u>                    |
| <i>Loans granted in TL</i>                  | <i>136,573</i>                     | <i>79,385</i>                     |
| <i>Loans granted in foreign currencies:</i> | <i>US\$ 54,384,132</i>             | <i>US\$ 54,605,072</i>            |
|   | <i>EUR 34,881,450</i>              | <i>EUR 59,911,300</i>             |
| Miscellaneous receivables                   | 5,427                              | 7,868                             |
| Deposits received                           | 575,884                            | 500,934                           |
| <i>Commitments and contingencies</i>        |                                    |                                   |
| Non-cash loans                              | 371,497                            | 188,864                           |
| Derivatives                                 | 16,791                             | -                                 |

### 3.2 Transactions

|                  | <i>Nine-month<br/>period ended<br/><u>30 September 2009</u></i> | <i>Three-month<br/>period ended<br/><u>30 September 2009</u></i> | <i>Nine-month<br/>period ended<br/><u>30 September 2008</u></i> | <i>Three-month<br/>period ended<br/><u>30 September 2008</u></i> |
|------------------|---|--|---|--|
| Interest income  | 20,294  | 5,413  | 5,800   | 924  |
| Interest expense | 20,528  | 6,322  | 30,807  | 12,838   |

In the first nine months of 2009, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 2.6%-10.8% and 0.5%-11.1% (31 December 2008: 3.1%-6.6% and 1.5%-6.5%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 8.0%-19.0% and 7.0%-10.8%, respectively (31 December 2008: 18.6%-27.0% and 15.0%-23.0%). Various commission rates are applied to transactions involving guarantees and commitments.

### 3 Related party disclosures (continued)

No impairment losses have been recorded against balances outstanding during the period with related parties and no specific allowance has been made for impairment losses on balances with the related parties as at 30 September 2009.

The Bank sold a real estate, a building in Maslak to Doğuş Holding AŞ on 11 March 2008 at a sale price of US\$ 35 millions. Before the year end, the total amount has been fully collected and a gain of TL 267 thousands on this sale is recorded as of 31 December 2008.

At 6 March 2009, the Bank purchased a real estate from Eureka Sigorta AŞ at a price of TL 12,434 thousands and fully paid.

The Bank purchased a real estate at a total price of USD 11,000,000 plus VAT (equivalent of TL 18,121 thousands) at 3 June 2009 through payments of USD 6,000,000 at 6 April 2009 and USD 5,880,000 at 3 June 2009 as per the trading commitment agreement with Doğuş-Ge Gayrimenkul Yatırım Ortaklığı AŞ.

Key management personnel compensation for the nine-month period ended 30 September 2009 amounted TL 66,465 thousands (30 September 2008: TL 63,037 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 44,570 thousands (30 September 2008: TL 42,234 thousands) and of its financial affiliates amounted TL 21,895 thousands (30 September 2008: TL 20,803 thousands).

### 4 Cash and balances with central banks

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Cash at branches                                       | 505,857                            | 672,358                           |
| Balances with central banks excluding reserve deposits | <u>5,893,557</u>                   | <u>3,300,175</u>                  |
|  | <u>6,399,414</u>                   | <u>3,972,533</u>                  |

### 5 Financial assets at fair value through profit or loss

|   | <i>30 September</i><br><u>2009</u> |                       |                              | <i>31 December</i><br><u>2008</u> |                       |
|---|------------------------------------|-----------------------|------------------------------|-----------------------------------|-----------------------|
|   | <u>Face value</u>                  | <u>Carrying value</u> | <u>Interest rate range %</u> | <u>Latest maturity</u>            | <u>Carrying value</u> |
| <i>Debt and other instruments held at fair value:</i>       |                                    |                       |                              |                                   |                       |
| Discounted government bonds in TL                           | 104,826                            | 99,376                | 8-9                          | 2011                              | 3,633                 |
| Government bonds in TL                                      | 47,991                             | 51,362                | 8-21                         | 2014                              | 123,221               |
| Investment fund   | -                                  | 27,230                | -                            | -                                 | 22,123                |
| Gold  | -                                  | 15,313                | -                            | -                                 | 24,967                |
| Others  |                                    | <u>59,044</u>         |                              |                                   | <u>34,589</u>         |
|   |                                    | 252,325               |                              |                                   | 208,533               |
| <i>Equity and other non-fixed income instruments:</i>       |                                    |                       |                              |                                   |                       |
| Forfeiting receivables                                      |                                    | 157,609               |                              |                                   | 355,590               |
| Listed shares   |                                    | <u>26</u>             |                              |                                   | <u>14</u>             |
|   |                                    | <u>157,635</u>        |                              |                                   | <u>355,604</u>        |
| Total financial assets at fair value through profit or loss |                                    | <u>409,960</u>        |                              |                                   | <u>564,137</u>        |

Income from debt and other instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising on derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges are reflected as a separate component of equity.

## 5 Financial assets at fair value through profit or loss (continued)

Income/(loss) from trading of financial assets is detailed in the table below:

|                           | <i>Nine-month<br/>period ended<br/>30 September 2009</i> | <i>Three-month<br/>period ended<br/>30 September 2009</i> | <i>Nine-month<br/>period ended<br/>30 September 2008</i> | <i>Three-month<br/>period ended<br/>30 September 2008</i> |
|---------------------------|--|---|--|---|
| Fixed/floating securities | 379,325  | 69,665  | 55,437   | 14,648  |
| Derivative transactions   | <u>318,624</u>   | <u>(37,472)</u>   | <u>187,302</u>   | <u>232,580</u>  |
| Trading gains, net        | <u>697,949</u>   | <u>32,193</u>   | <u>242,739</u>   | <u>247,228</u>  |

As at 30 September 2009, financial assets at fair value through profit or loss amounting to TL 100 thousands are blocked against asset management operation (31 December 2008: TL 89 thousands).

A consolidated financial affiliate of the Bank, reclassified some of its investment securities, previously reported as financial assets held for trading amounting EUR 65,782,732 with a total face value of US\$ 93,155,000 to financial assets available-for-sale as of 1 July 2008 as per the Amendments to IAS 39 Financial Instruments: Recognition and Measurement as issued by the International Accounting Standards Board in October 2008.

## 6 Loans and advances to banks

|  | <i>30 September 2009</i> |                             |                  | <i>31 December 2008</i> |                             |                  |
|--|--------------------------|-----------------------------|------------------|-------------------------|-----------------------------|------------------|
|  | <i>TL</i>                | <i>Foreign<br/>Currency</i> | <i>Total</i>     | <i>TL</i>               | <i>Foreign<br/>Currency</i> | <i>Total</i>     |
| <i>Loans and advances-demand</i>                   |                          |                             |                  |                         |                             |                  |
| Domestic banks                                     | 1,698                    | 2,342                       | 4,040            | 436                     | 2,428                       | 2,864            |
| Foreign banks                                      | <u>249,873</u>           | <u>621,073</u>              | <u>870,946</u>   | <u>369,998</u>          | <u>605,628</u>              | <u>975,626</u>   |
|  | 251,571                  | 623,415                     | 874,986          | <u>370,434</u>          | <u>608,056</u>              | <u>978,490</u>   |
| <i>Loans and advances-time</i>                     |                          |                             |                  |                         |                             |                  |
| Domestic banks                                     | 265,560                  | 1,101,084                   | 1,366,644        | 366,047                 | 1,567,270                   | 1,933,317        |
| Foreign banks                                      | <u>2,169,526</u>         | <u>4,759,466</u>            | <u>6,928,992</u> | <u>975,661</u>          | <u>4,009,012</u>            | <u>4,984,673</u> |
|  | <u>2,435,086</u>         | <u>5,860,550</u>            | <u>8,295,636</u> | <u>1,341,708</u>        | <u>5,576,282</u>            | <u>6,917,990</u> |
| Placements at money markets                        | <u>30,117</u>            | -                           | <u>30,117</u>    | <u>40,552</u>           | -                           | <u>40,552</u>    |
| Accrued interest on loans<br>and advances to banks | <u>24,801</u>            | <u>18,422</u>               | <u>43,223</u>    | <u>35,690</u>           | <u>31,519</u>               | <u>67,209</u>    |
| Total loans and advances to banks                  | 2,741,575                | 6,502,387                   | 9,243,962        | 1,788,384               | 6,215,857                   | 8,004,241        |
| Less: allowance for<br>uncollectibility            | <u>-</u>                 | <u>-</u>                    | <u>-</u>         | <u>-</u>                | <u>-</u>                    | <u>-</u>         |
| Net loans and advances to banks                    | <u>2,741,575</u>         | <u>6,502,387</u>            | <u>9,243,962</u> | <u>1,788,384</u>        | <u>6,215,857</u>            | <u>8,004,241</u> |

As at 30 September 2009, majority of loans and advances-time are short-term with interest rates ranging between 1%-12% per annum for foreign currency time placements and 7%-26% per annum for TL time placements (31 December 2008: 1%-11% and 15%-23%, respectively).

As at 30 September 2009, loans and advances at domestic and foreign banks include blocked accounts of TL 4,379,402 thousands (31 December 2008: TL 1,939,349 thousands) held against securitizations, fundings, legal legislations for the branches operating in foreign countries and insurance business.

## 7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

|   | <b><i>30 September</i></b><br><b><u>2009</u></b> | <b><i>31 December</i></b><br><b><u>2008</u></b> |
|---|--|---|
| Consumer loans  | 16,757,080                                       | 16,232,977                                      |
| <i>Credit card receivables</i>  | 6,861,378  | 6,717,695                                       |
| <i>Mortgage loans</i>   | 5,566,386  | 5,024,875                                       |
| <i>General purpose loans</i>  | 2,828,160  | 2,907,668                                       |
| <i>Auto loans</i>   | 645,679  | 839,399   |
| <i>Other consumer loans</i>   | 855,477  | 743,340   |
| Service sector  | 4,249,163  | 4,581,154                                       |
| Energy  | 3,710,217  | 3,593,525                                       |
| Transportation and logistics  | 2,784,946  | 2,831,671                                       |
| Food  | 2,600,635  | 1,881,166                                       |
| Construction  | 2,518,645  | 2,745,348                                       |
| Transportation vehicles and sub-industry                                  | 2,142,311  | 2,331,475                                       |
| Financial institutions  | 2,114,501  | 2,019,792                                       |
| Textile   | 2,038,529  | 2,067,422                                       |
| Metal and metal products  | 1,916,692  | 1,742,065                                       |
| Data processing   | 1,658,734  | 1,199,499                                       |
| Tourism   | 1,517,459  | 1,418,581                                       |
| Durable consumption   | 820,933  | 958,250   |
| Agriculture and stockbreeding   | 785,572  | 712,537   |
| Chemistry and chemical product  | 784,144  | 785,910   |
| Stone, rock and related products  | 658,997  | 645,265   |
| Machinery and equipments  | 643,153  | 632,454   |
| Electronic, optical and medical equipment                                 | 571,255  | 545,395   |
| Mining  | 365,977  | 397,882   |
| Plastic products  | 322,944  | 326,161   |
| Paper and paper products  | 307,017  | 288,016   |
| Others  | <u>2,059,350</u>                                 | <u>1,950,975</u>                                |
| Total performing loans  | 51,328,254                                       | 49,887,520                                      |
| Financial lease receivables, net of unearned income (Note 8)              | 1,518,027  | 1,997,066                                       |
| Factoring receivables   | 769,048  | 651,799   |
| Accrued interest income on loans and lease receivables                    | 910,162  | 1,146,004                                       |
| Non-performing loans, factoring and lease receivables                     | 2,405,523  | 1,368,312                                       |
| Allowance for possible losses from loans, factoring and lease receivables | <u>(2,164,152)</u>                               | <u>(1,180,632)</u>                              |
| Loans and advances to customers   | <u>54,766,862</u>                                | <u>53,870,069</u>                               |

As at 30 September 2009, interest rates on loans granted to customers range between 1%-22% (31 December 2008: 2%-30%) per annum for the foreign currency loans and 7%-32% (31 December 2008: 14%-35%) per annum for the TL loans.

## 7 Loans and advances to customers (continued)

The provision for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 336,889 thousands (31 December 2008: TL 196,351 thousands).

Movements in the allowance for possible losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Balance at the beginning of the period | 1,180,632                          | 785,855                           |
| Write-offs                             | (107,462)                          | (131,900)                         |
| Recoveries and reversals               | (390,636)                          | (36,873)                          |
| Provision for the period               | <u>1,481,618</u>                   | <u>563,550</u>                    |
| Balance at the end of the period       | <u>2,164,152</u>                   | <u>1,180,632</u>                  |

Movements in the portfolio basis allowance are as follows:

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Balance at the beginning of the period | 196,351                            | 153,805                           |
| Net change in provision for the period | <u>140,538</u>                     | <u>42,546</u>                     |
| Balance at the end of the period       | <u>336,889</u>                     | <u>196,351</u>                    |

## 8 Financial lease receivables

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Financial lease receivables, net of unearned income (Note 7) | 1,518,027                          | 1,997,066                         |
| Add: non-performing lease receivables                        | 235,894                            | 101,577                           |
| Less: allowance for possible losses on lease receivable      | <u>(33,646)</u>                    | <u>(15,117)</u>                   |
|  | <u>1,720,275</u>                   | <u>2,083,526</u>                  |
| Accrued interest on lease receivables                        | <u>17,297</u>                      | <u>20,471</u>                     |

### *Analysis of net financial lease receivables*

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Due within 1 year                  | 851,642          | 1,077,648        |
| Due between 1 and 5 years          | 1,095,692        | 1,270,738        |
| Due after 5 years                  | <u>51,567</u>    | <u>60,329</u>    |
| Financial lease receivables, gross | 1,998,901        | 2,408,715        |
| Unearned income                    | <u>(278,626)</u> | <u>(325,189)</u> |
| Financial lease receivables, net   | <u>1,720,275</u> | <u>2,083,526</u> |

### *Analysis of net financial lease receivables, net*

|                                  |                  |                  |
|----------------------------------|------------------|------------------|
| Due within 1 year                | 703,965          | 907,223          |
| Due between 1 and 5 years        | 969,120          | 1,121,576        |
| Due after 5 years                | <u>47,190</u>    | <u>54,727</u>    |
| Financial lease receivables, net | <u>1,720,275</u> | <u>2,083,526</u> |

## 9 Other assets

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u>2009</u>         | <u>2008</u>        |
| Reserve deposits at central banks                    | 2,476,863           | 1,773,311          |
| Insurance premium receivables                        | 1,296,965           | 935,860            |
| Accrued exchange gain on derivatives                 | 885,168             | 812,397            |
| Prepaid expenses, insurance claims and similar items | 214,904             | 286,832            |
| Miscellaneous receivables                            | 178,470             | 95,801             |
| Advances for tangible assets                         | 116,944             | 81,008             |
| Tangible assets held for sale                        | 86,712              | 81,346             |
| Prepaid taxes and taxes and funds to be refunded     | 50,086              | 52,106             |
| Others   | <u>88,842</u>       | <u>84,589</u>      |
|  | <u>5,394,954</u>    | <u>4,203,250</u>   |

### *Reserve deposits at central banks*

At 30 September 2009, reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of TL and foreign currency liabilities taken at the rates determined by the Central Bank of Turkey. In accordance with the current legislation, the reserve deposit rates for TL and foreign currency liabilities are 6% (since 16 October 2009: 5%) and 9% (31 December 2008: 6% and 9%), respectively. Interest rates applied for reserve requirements are 5.8% (31 December 2008: 12%) for TL deposits. The foreign currency reserves do not earn any interests.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 2% on all customer deposits with an original maturity less than 2 years and 2% on bank deposits of non-EU banks with an original maturity less than 2 years. The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US\$ for foreign currency liabilities. Presently, in line with stipulations of related legislation in force, the rates for reserve requirements are 15% for RON denominated liabilities with a remaining maturity less than 2 years and 30% for foreign currency denominated liabilities with an remaining maturity less than 2 years excluding Romanian banks' fundings (previously, 18% for RON and 35% for foreign currency). The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, presently there are 4.09% for RON reserves, 1.7% for Euro reserves and 1.29% for US\$ reserves.

The reserve deposits at the Central Bank of Russia are not available for the daily business, as required by the Russian Banking Law, these reserve deposits are calculated on the basis of RUR and foreign currency liabilities taken at the rates determined by the Central Bank of Russia. In accordance with the current legislation, the reserve deposit rates for RUR and foreign currency liabilities banks-nonresident (RUR and foreign currency liabilities), individuals (RUR) and other liabilities are 2.5% starting from 1 August 2009 (2008: banks-nonresident (RUR and foreign currency liabilities) 5.5%, individuals (RUR) 4.5%, other liabilities (RUR and foreign currency liabilities) 5%).

### *Tangible assets held for sale*

TL 86,712 thousands (31 December 2008: TL 74,366 thousands) of the tangible assets held for sale is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real

## 9 Other assets (continued)

estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 September 2009, real estates held for sale amounting TL 78,233 thousands (31 December 2008: TL 78,214 thousands) have been impaired by TL 3,565 thousands (31 December 2008: TL 4,739 thousands).

As of 30 September 2009, the rights of repurchase on various tangible assets held for sale amounted to TL 14,021 thousands (31 December 2008: TL 13,714 thousands).

## 10 Investment securities

|   | 30 September<br>2009 |                   |                          |                    | 31 December<br>2008 |
|---|----------------------|-------------------|--------------------------|--------------------|---------------------|
|   | Face<br>value        | Carrying<br>value | Interest rate<br>range % | Latest<br>maturity | Carrying<br>value   |
| <i>Debt and other instruments available-for-sale:</i> |                      |                   |                          |                    |                     |
| Government bonds at floating rates                    | 7,434,594            | 7,937,410         | 11-17                    | 2014               | 7,269,810           |
| Government bonds indexed to<br>consumer price index   | 4,145,037            | 5,458,174         | 9-12                     | 2014               | 147,118             |
| Government bonds in TL                                | 4,234,828            | 4,271,903         | 8-17                     | 2014               | 2,602,072           |
| Discounted government bonds in TL                     | 4,036,128            | 3,857,300         | 5-9                      | 2011               | 4,683,672           |
| Bonds issued by corporations (a)                      | 2,020,591            | 2,009,886         | 1-9                      | 2014               | 2,022,743           |
| Eurobonds   | 850,403              | 970,430           | 6-12                     | 2038               | 683,634             |
| Bonds issued by financial institutions                | 637,696              | 645,175           | 1-20                     | 2020               | 422,811             |
| Bonds issued by foreign governments                   | 486,120              | 497,491           | 4-12                     | 2019               | 2,277               |
| Government bonds in foreign currency                  | 272,967              | 272,111           | 1-6                      | 2010               | 409,824             |
| Others  |                      | 91,526            |                          |                    | 83,786              |
| Total securities available-for-sale                   |                      | 26,011,406        |                          |                    | 18,327,747          |
| <i>Debt and other instruments held-to-maturity:</i>   |                      |                   |                          |                    |                     |
| Government bonds in TL                                | 3,250,909            | 3,056,155         | 14-17                    | 2012               | 3,065,219           |
| Government bonds at floating rates (b)                | 2,578,603            | 2,667,324         | 12-13                    | 2014               | 2,732,620           |
| Eurobonds   | 1,380,408            | 1,396,718         | 7-12                     | 2036               | 1,646,169           |
| Others  |                      | 38,097            |                          |                    | 39,760              |
|   |                      | 7,158,294         |                          |                    | 7,483,768           |
| Accrued interest on held-to-maturity portfolio        |                      | 104,091           |                          |                    | 300,614             |
| Total securities held-to-maturity                     |                      | 7,262,385         |                          |                    | 7,784,382           |
| Total investment securities                           |                      | 33,273,791        |                          |                    | 26,112,129          |

(a) Bonds issued by corporations include credit linked notes with a total face value of US\$ 882,777,778 and EUR 1,000,000 (31 December 2008: US\$ 895,500,000 and EUR 1,175,000) and a total carrying value of TL 1,305,900 thousands (31 December 2008: TL 1,389,392 thousands).

(b) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

## 10 Investment securities (continued)

In 2008, the Bank reclassified certain investment securities, previously classified in its securities available-for-sale portfolio in its financial statements, with total face values of TL 2,831,667 thousands and US\$ 843,847,999 to its securities held-to-maturity portfolio as a result of change in its intention to hold such securities. Such securities are included in the securities held-to-maturity portfolio at their fair values of TL 2,685,106 thousands and US\$ 852,772,307 as of their reclassification date. The negative valuation differences amounting TL 99,085 thousands and US\$ 6,729,440 of these securities, are recorded under the shareholders' equity and amortized through the statement of comprehensive income throughout their maturities. As of the date of the statement of financial position, the negative valuation differences under the shareholders' equity are TL 76,554 thousands and US\$ 6,809,576.

Interest income from debt and other fixed or floating instruments is reflected in interest on securities. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity.

Impairment losses provided on investment securities as of 30 September 2009 amounted to TL 20,415 thousands (30 September 2008: TL 56 thousands).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 12,484,897 thousands (31 December 2008: TL 11,641,331 thousands).

The following table summarizes securities that were deposited as collaterals with respect to various banking, insurance and asset management transactions:

|   | <u>30 September 2009</u> |                       | <u>31 December 2008</u> |                       |
|---|--------------------------|-----------------------|-------------------------|-----------------------|
|   | <u>Face Value</u>        | <u>Carrying value</u> | <u>Face Value</u>       | <u>Carrying value</u> |
| Collateralized to foreign banks                                 | 10,087,719               | 10,333,006            | 7,108,446               | 7,242,244             |
| Deposited at Istanbul Stock Exchange                            | 3,246,639                | 3,594,575             | 5,745,673               | 5,907,317             |
| Deposited at central banks for repurchase transactions          | 1,596,479                | 1,729,792             | 1,541,280               | 1,606,177             |
| Deposited at CBT for interbank transactions                     | 576,154                  | 573,620               | 598,920                 | 629,992               |
| Deposited at CBT for foreign currency money market transactions | 529,403                  | 550,977               | 581,980                 | 584,095               |
| Deposited at Clearing Bank (Takasbank)                          | 55,233                   | 56,533                | 10,000                  | 10,087                |
| Others  |                          | <u>52,856</u>         |                         | <u>138,831</u>        |
|   |                          | <u>16,891,359</u>     |                         | <u>16,118,743</u>     |

## 11 Investments in equity participations

|                                    | <u>30 September 2009</u> |                    | <u>31 December 2008</u> |                    |
|------------------------------------|--------------------------|--------------------|-------------------------|--------------------|
|                                    | <u>Carrying Value</u>    | <u>Ownership %</u> | <u>Carrying Value</u>   | <u>Ownership %</u> |
| Eureko Sigorta AŞ                  | 47,121                   | 20.00              | 40,342                  | 20.00              |
| IMKB Takasbank AŞ                  | 11,962                   | 5.83               | 11,962                  | 5.83               |
| Garanti Filo Yönetim Hizmetleri AŞ | -                        | -                  | 10,000                  | 100.00             |
| Others                             | <u>8,820</u>             |                    | <u>8,133</u>            |                    |
|                                    | <u>67,903</u>            |                    | <u>70,437</u>           |                    |

## **11 Investments in equity participations (continued)**

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and the banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands at 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009.

Others include "Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ" which was established as per the decision made during the board of directors meeting of the Bank on 15 September 2007 to provide consultancy and outsourcing services to banks, housing finance and mortgage finance companies. Its legal registration process was completed on 3 October 2007. The Bank owns 100% of the company shares. The share capital of the company amounting TL 750 is fully paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations compared to the consolidated performance of the Bank and its affiliates, instead it is recorded under investments in equity participations in "others" above and valued at cost.

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank are sold to Eureko BV on 21 June 2007. After the sale, the remaining 20% is reclassified as investments in equity participations and accounted under the equity method of accounting. Subsequent to this sale, at 1 October 2007 the legal name of the company has been changed as Eureko Sigorta AŞ.

Garanti Filo Yönetimi Hizmetleri AŞ was established on 10 January 2007 as an operational leasing company, and fully owned and controlled by the leasing affiliate of the Bank. The company's main objective is to rent cars to corporates, institutional and small and medium size enterprises. The total paid-in share capital is TL 10,000 thousands as of the issue date of the financial statements. This company is consolidated in the accompanying financial statements as of 30 September 2009. As of 31 December 2008 it was recorded under investments in equity participations and valued at cost due to its low level of operations in 2008.

IMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

There is not any additional impairment losses for the investments in equity participations as of 30 September 2009 and 31 December 2008. The cumulative provisions for such impairment losses amounted to TL 3,489 thousands as of 30 September 2009 (31 December 2008: TL 3,582 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 30 September 2009 is as follows:

|  | <u>1 January</u> | <u>Additions</u> | <u>Adjustment<br/>for Currency<br/>Translation</u> | <u>Disposals</u> | <u>30 September</u> |
|--|------------------|------------------|--|------------------|---------------------|
| <i>Costs</i>   |                  |                  |  |                  |                     |
| Land and buildings                                   | 1,086,460        | 51,200           | -  | (19,037)         | 1,118,623           |
| Furniture, fixture, equipments<br>and motor vehicles | 1,037,027        | 184,306          | 246  | (19,252)         | 1,202,327           |
| Leasehold improvements                               | <u>297,495</u>   | <u>30,583</u>    | <u>263</u>   | <u>(4,613)</u>   | <u>323,728</u>      |
|  | 2,420,982        | 266,089          | 509  | (42,902)         | 2,644,678           |
| <i>Less: Accumulated depreciation</i>                |                  |                  |  |                  |                     |
| Buildings  | 228,852          | 17,503           | -  | (5,595)          | 240,760             |
| Furniture, fixture, equipments<br>and motor vehicles | 725,990          | 108,060          | 36   | (8,604)          | 825,482             |
| Leasehold improvements                               | <u>122,493</u>   | <u>35,456</u>    | <u>(14)</u>  | <u>(2,731)</u>   | <u>155,204</u>      |
|  | 1,077,335        | 161,019          | 22   | (16,930)         | 1,221,446           |
| <i>Construction in progress</i>                      | <u>1,919</u>     | 27,790           | 10   | (1,012)          | <u>28,707</u>       |
|  | 1,345,566        |                  |  |                  | 1,451,939           |
| <i>Impairment in value of tangible assets</i>        | <u>(106,936)</u> |                  |  |                  | <u>(99,966)</u>     |
|  | <u>1,238,627</u> |                  |  |                  | <u>1,351,973</u>    |

Movement in tangible assets from 1 January to 31 December 2008 is as follows:

|  | <u>1 January</u> | <u>Additions</u> | <u>Adjustment<br/>for Currency<br/>Translation</u> | <u>Disposals</u> | <u>31 December</u> |
|--|------------------|------------------|--|------------------|--------------------|
| <i>Costs</i>   |                  |                  |  |                  |                    |
| Land and buildings                                   | 1,096,919        | 55,561           | 14,766   | (80,786)         | 1,086,460          |
| Furniture, fixture, equipments<br>and motor vehicles | 1,086,273        | 219,709          | 5,357  | (274,312)        | 1,037,027          |
| Leasehold improvements                               | <u>198,274</u>   | <u>102,412</u>   | <u>2,831</u>                                       | <u>(6,022)</u>   | <u>297,495</u>     |
|  | 2,381,466        | 377,682          | 22,954   | (361,120)        | 2,420,982          |
| <i>Less: Accumulated depreciation</i>                |                  |                  |  |                  |                    |
| Buildings  | 229,497          | 22,971           | 1,556  | (25,172)         | 228,852            |
| Furniture, fixture, equipments<br>and motor vehicles | 809,741          | 130,234          | 2,015  | (216,000)        | 725,990            |
| Leasehold improvements                               | <u>87,894</u>    | <u>38,117</u>    | <u>595</u>   | <u>(4,113)</u>   | <u>122,493</u>     |
|  | 1,127,132        | 191,322          | 4,166  | (245,285)        | 1,077,335          |
| <i>Construction in progress</i>                      | <u>17,794</u>    | 10,084           | 1,402  | (27,361)         | <u>1,919</u>       |
|  | 1,272,128        |                  |  |                  | 1,345,566          |
| <i>Impairment in value of tangible assets</i>        | <u>(109,227)</u> |                  |  |                  | <u>(106,939)</u>   |
|  | <u>1,162,901</u> |                  |  |                  | <u>1,238,627</u>   |

A portion of the additions amounting TL 89,422 thousands in the first nine-months of 2009 represented the tangible assets of a newly consolidated affiliate.

Depreciation expense for the nine-month period ended and the three-month period ended 30 September 2009 amounts to TL 146,283 thousands and TL 48,073 thousands (the nine-month period ended 30 September 2008: TL 132,207 thousands and the three-month period ended 30 September 2008: TL 46,142 thousands).

## 12 Tangible assets (continued)

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 30 September 2009, land and buildings at a total net book value before impairment of TL 400,279 thousands (31 December 2008: TL 394,800 thousands) have been impaired by TL 99,966 thousands (31 December 2008: TL 106,939 thousands).

## 13 Goodwill

As of 30 September 2009, goodwill arises from the direct acquisitions of 100.00% ownership in Garanti Yatırım Menkul Kıymetler AŞ, 98.94% ownership in Garanti Finansal Kiralama AŞ, 84.91% ownership in Garanti Emeklilik ve Hayat AŞ, 81.84% ownership in Garanti Faktoring Hizmetleri AŞ and 20.00% ownership in Eureka Sigorta AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of their acquisition as follows:

|                                     | <i>30 September</i> | <i>31 December</i> |
|-------------------------------------|---------------------|--------------------|
|                                     | <u>2009</u>         | <u>2008</u>        |
| Garanti Yatırım Menkul Kıymetler AŞ | 20,984              | 20,984             |
| Garanti Faktoring Hizmetleri AŞ     | 6,697               | 6,697              |
| Garanti Finansal Kiralama AŞ        | 5,233               | 5,233              |
| Eureka Sigorta AŞ                   | 222                 | 222                |
| Garanti Emeklilik ve Hayat AŞ       | <u>34</u>           | <u>34</u>          |
|                                     | 33,170              | 33,170             |
| Impairment of goodwill              | <u>-</u>            | <u>-</u>           |
|                                     | <u>33,170</u>       | <u>33,170</u>      |

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

## 14 Deposits from banks

Deposits from banks comprise the following:

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2009</u>         | <u>2008</u>        |
| Payable on demand                       | 1,340,351           | 942,099            |
| Term deposits                           | <u>1,498,609</u>    | <u>1,168,062</u>   |
|   | 2,838,960           | 2,110,161          |
| Accrued interest on deposits from banks | <u>7,168</u>        | <u>9,118</u>       |
|   | <u>2,846,128</u>    | <u>2,119,279</u>   |

Deposits from banks include both TL accounts amounting TL 900,419 thousands (31 December 2008: TL 548,049 thousands) and foreign currency accounts amounting TL 1,938,541 thousands (31 December 2008: TL 1,562,112 thousands) in total. As at 30 September 2009, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 7%-16% and 1%-7% (31 December 2008: 13%-22% and 1%-8%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

|  | <i>30 September<br/>2009</i> |                    |                     | <i>31 December<br/>2008</i> |
|--|------------------------------|--------------------|---------------------|-----------------------------|
|  | <i><u>Demand</u></i>         | <i><u>Time</u></i> | <i><u>Total</u></i> | <i><u>Total</u></i>         |
| Foreign currency                                       | 7,606,155                    | 22,324,777         | 29,930,932          | 27,023,909                  |
| Saving   | 1,623,159                    | 17,465,346         | 19,088,505          | 18,225,454                  |
| Commercial   | 2,074,707                    | 8,296,428          | 10,371,135          | 8,588,692                   |
| Public and other                                       | <u>1,660,082</u>             | <u>125,951</u>     | <u>1,786,033</u>    | <u>1,626,000</u>            |
|  | 12,964,103                   | 48,212,502         | 61,176,605          | 55,464,055                  |
| Accrued interest expense<br>on deposits from customers | <u>37,559</u>                | <u>232,131</u>     | <u>269,690</u>      | <u>373,753</u>              |
|  | <u>13,001,662</u>            | <u>48,444,633</u>  | <u>61,446,295</u>   | <u>55,837,808</u>           |

As at 30 September 2009, interest rates applicable to TL deposits and foreign currency deposits vary within ranges of 7%-18% and 1%-11% (31 December 2008: 13%-24% and 1%-11%), respectively.

## 16 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

|                                 | <i><u>Carrying<br/>value</u></i> | <i><u>Fair value<br/>of<br/>underlying<br/>assets</u></i> | <i><u>Carrying<br/>amount of<br/>corresponding<br/>liabilities</u></i> | <i><u>Range of<br/>repurchase<br/>dates</u></i> | <i><u>Repurchase<br/>price</u></i> |
|---------------------------------|----------------------------------|---|--|---|------------------------------------|
| <b><u>30 September 2009</u></b> |                                  |   |  |   |                                    |
| Investment securities           | <u>12,484,897</u>                | <u>12,791,122</u>   | <u>12,201,656</u>  | Oct'09-Feb'11                                   | <u>12,353,954</u>                  |
| <b><u>31 December 2008</u></b>  |                                  |   |  |   |                                    |
| Investment securities           | <u>11,641,331</u>                | <u>11,740,609</u>   | <u>11,153,180</u>  | Jan'09-Feb'11                                   | <u>11,285,506</u>                  |

Accrued interest on obligations under repurchase agreements amounting to TL 37,762 thousands (31 December 2008: TL 61,473 thousands) is included in the carrying amount of corresponding liabilities.

In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 September 2009, the maturities of the obligations varied from one day to seventeen months and interest rates varied between 2%-11% (31 December 2008: 3%-17%).

## 17 Loans and advances from banks

Loans and advances from banks comprise the following:

|   | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|---|------------------------------------|-----------------------------------|
| <u>Short-term borrowings</u>                      |                                    |                                   |
| Domestic banks                                    | 1,004,290                          | 948,325                           |
| Foreign banks                                     | <u>2,864,944</u>                   | <u>2,780,061</u>                  |
|   | 3,869,234                          | 3,728,386                         |
| <u>Long-term debts</u>                            |                                    |                                   |
| Short-term portion                                | 1,698,480                          | 2,884,807                         |
| Medium and long-term portion                      | <u>8,864,030</u>                   | <u>6,541,686</u>                  |
|   | 10,562,510                         | 9,426,493                         |
| Accrued interest on loans and advances from banks | <u>204,447</u>                     | <u>288,704</u>                    |
|   | <u>14,636,191</u>                  | <u>13,443,583</u>                 |

As at 30 September 2009, loans and advances from banks included various promissory notes amounting to TL 291,412 thousands in total with latest maturity by 2010 (31 December 2008: TL 953,176 thousands with latest maturity by 2009).

As at 30 September 2009, short-term borrowings included two one-year-syndicated-loan facilities to finance export contracts in two tranches of (i) US\$ 215,000,000 and EUR 282,000,000 with the rates of Libor + 2.0% and Euribor + 2.0% per annum with the participation of 20 banks from 10 different countries (equivalent of TL 918,822 thousands) and (ii) US\$ 109,974,375 and EUR 517,312,500, with the rates of Libor + 2.5% and Euribor + 2.5% per annum with the participation of 31 banks from 15 different countries, (equivalent of TL 1,268,834 thousands).

Long-term debts comprise the following:

|                                     | <i>30 September 2009</i>        |                                  |  |                                     |   | <i>31 December</i><br><u>2008</u>                     |
|-------------------------------------|---------------------------------|----------------------------------|--|-------------------------------------|---|---|
|                                     | <i>Interest</i><br><u>rate%</u> | <i>Latest</i><br><u>Maturity</u> | <i>Amount in</i><br><u>original</u><br><u>currency</u> | <i>Short term</i><br><u>portion</u> | <i>Medium and</i><br><u>long term</u><br><u>portion</u> | <i>Medium and</i><br><u>long term</u><br><u>debts</u> |
| Deutsche Bank AG                    | 11.3-12.9                       | 2017                             | TL 701 mio   | -                                   | 701,210   | 701,210   |
| DPR Securitisation-IV               | 1.0-1.5                         | 2013                             | US\$ 478 mio   | 187,087                             | 513,265   | 678,194   |
| DPR Securitisation-V <sup>(*)</sup> | 0.7-1.5                         | 2013                             | US\$ 422 mio   | 158,436                             | 460,195   | 600,808   |
| DPR Securitisation-VII              | 1.5                             | 2016                             | US\$ 382 mio   | 35,081                              | 524,151   | 571,420   |
| DPR Securitisation-VIII             | 1.0                             | 2017                             | US\$ 350 mio   | -                                   | 512,394   | 531,609   |
| DPR Securitisation-IX               | 1.9                             | 2018                             | EUR 200 mio  | 17,130                              | 411,130   | 423,160   |
| DPR Securitisation-VI               | 1.2                             | 2011                             | EUR 192 mio  | 236,600                             | 173,548   | 407,259   |
| DPR Securitisation-VI               | 1.4                             | 2016                             | US\$ 225 mio   | 15,307                              | 313,823   | 318,583   |
| DPR Securitisation-VI               | 1.0                             | 2013                             | US\$ 210 mio   | -                                   | 307,139   | 341,450   |
| DPR Securitisation-III              | 1.0                             | 2013                             | US\$ 206 mio   | 80,307                              | 221,108   | 291,989   |
| DPR Securitisation-VIII             | 0.7                             | 2017                             | US\$ 100 mio   | -                                   | 146,398   | 151,888   |
| DPR Securitisation-VIII             | 0.7                             | 2017                             | US\$ 100 mio   | -                                   | 146,398   | 151,888   |
| DPR Securitisation-VII              | 1.4                             | 2014                             | US\$ 87 mio  | 24,401                              | 103,685   | 126,302   |
| DPR Securitisation-VIII             | 1.4                             | 2015                             | US\$ 48 mio  | 12,202                              | 57,945  | 72,784  |
| Others                              |                                 |                                  |  | <u>931,929</u>                      | <u>4,271,641</u>  | <u>1,173,142</u>                                      |
|                                     |                                 |                                  |  | <u>1,698,480</u>                    | <u>8,864,030</u>  | <u>6,541,686</u>                                      |

<sup>(\*)</sup> On 9 May 2009, the Bank completed a securitization (the "DPR Securitisation-X") transaction by issuance of certificates; a tranche of US\$ 225 millions with a maturity of 4 years to refinance the debt of US\$ 250 millions obtained in November 2005, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

## **17 Loans and advances from banks (continued)**

On 22 August 2008, the Bank completed a securitization (the “DPR Securitization-IX”) transaction by issuance of certificates; a tranche of EUR 200 millions with 10 years maturity from European Investment Bank.

On 28 June 2007, the Bank completed a securitization (the “DPR Securitization-VIII”) transaction by issuance of certificates; three tranches of US\$ 550 millions with 10 years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US\$ 50 millions with 8 years maturity and no financial guarantee.

On 24 January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of 10 years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US\$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of 10 years for each and pledged US\$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively. The cash collaterals earn annually US\$ libor floating interest rate.

In December 2006, the Bank completed a securitization (the “DPR Securitization-VII”) transaction by issuance of certificates: US\$ 400 millions tranche with a maturity of 10 years and US\$ 100 millions tranche with a maturity of 8 years. Both of the series were issued on an unwrapped basis.

In May 2006, the Bank completed a securitization (the “DPR Securitization-VI”) transaction by issuance of certificates: Euro 300 millions with a guarantee issued by MBIA Insurance Corp. with maturity of 5 years, US\$ 300 millions with no financial guarantee and a maturity of 7 years and US\$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of 10 years.

In November 2005, the Bank completed a securitization (the “DPR Securitization-V”) transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of 7 years, US\$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of 8 years and US\$ 125 millions with no financial guarantee and a maturity of 8 years.

In September 2005, the Bank completed a securitization (the “DPR Securitisation-IV”) transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of 7 years, US\$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of 8 years, US\$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of 8 years, US\$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of 7 years, US\$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the “DPR Securitisation-III”) transaction by issuance of certificate: US\$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of 8 years.

The DPR securitization is a way of securitizing the Bank’s payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank’s trade finance and other corporate businesses and paid through foreign depository banks.

## 18 Subordinated liabilities

Subordinated liabilities comprise of the following:

|   | <u>30 September 2009</u> |                         |                       | <u>31 December 2008</u> |
|---|--------------------------|-------------------------|-----------------------|-------------------------|
|   | <u>Latest Maturity</u>   | <u>Interest rates %</u> | <u>Carrying value</u> | <u>Carrying value</u>   |
| Subordinated debt of US\$ 500 millions        | 2017                     | 6.95                    | 731,364               | 758,502                 |
| Subordinated debt of EUR 50 millions          | 2021                     | Euribor + 3.5           | 107,065               | -                       |
| Subordinated deposit of EUR 48 millions       | 2016                     | 4.41-6.00               | 102,797               | 101,573                 |
| Subordinated bonds payable of EUR 30 millions | 2016                     | Euribor + 1.57          | <u>64,239</u>         | <u>63,474</u>           |
|   |                          |                         | 1,005,465             | 923,549                 |
| Accrued interest on subordinated liabilities  |                          |                         | <u>11,958</u>         | <u>23,981</u>           |
|   |                          |                         | <u>1,017,423</u>      | <u>947,530</u>          |

On 23 February 2009, the Bank has obtained a 12-year subordinated loan of EUR 50 millions due March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of Euribor+3.5% and a repayment option for the Bank at the end of the seventh year.

On 5 February 2007, the Bank obtained a 10-year subordinated fixed-rate notes of US\$ 500 millions due February 2017 with a repayment option for the Bank at the end of the fifth year. The fixed rate notes with Political Risk Insurance provided by Steadfast (a subsidiary of Zurich American Insurance Company) received a rating of Baa1 by Moody's Investors Service and priced at par to yield 6.95% to investors.

On 29 September 2006, one of the Bank's affiliates issued its first floating rate note for EUR 30 millions, Euro-denominated lower tier-2 capital, priced at 99.30, arranged by Deutsche Bank and traded on the alternative market in Frankfurt.

As at 30 September 2009, subordinated deposits obtained by the consolidated banking affiliate in Holland amounted to EUR 48 millions (equivalent of TL 102,797 thousands) (31 December 2008: EUR 48 millions, equivalent of TL 101,573 thousands).

The Bank reclassified certain subordinated liabilities, previously classified in its deposits from customers amounting TL 103,892 thousands, loans and advances from banks amounting TL 780,140 thousands and bonds payable amounting TL 63,498 thousands to subordinated liabilities as of 31 December 2008.

## 19 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. As per the decision no.2006/10731 of the Council of Ministers published in the Official Gazette no.26237 dated 23 July 2006, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

## **19 Taxation (continued)**

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

### *Tax applications for foreign branches*

#### *NORTHERN CYPRUS*

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

#### *MALTA*

The corporate earnings are subjected to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The prepaid taxes are paid in April, August and December in the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings. The excess part of the corporate tax that is not covered by such prepayments is paid to the tax office in September.

#### *LUXEMBOURG*

The corporate earnings are subjected to a 21% corporate tax (2008: 22%). This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 4% of the calculated corporate tax is paid as a contribution for unemployment insurance fund. The rate of the municipality commerce tax is 6.75% in the municipality where the Bank's Luxembourg branch operates. The tax returns are examined by the authorized bodies and in case of any detected mistake, the amount of the taxes to be paid is revised. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

## 19 Taxation (continued)

### *Tax applications for foreign affiliates*

#### *HOLLAND*

In Holland, corporate income tax is levied at the rate of 25.5% on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax has been calculated using the nominal tax rate of 25.5% over the Dutch taxable income, 30% over the local taxable income of Germany branch and 16% over the local taxable income of Romania branches.

#### *RUSSIA*

The applicable tax rate for current and deferred tax for the Bank's consolidated affiliate in Russia is 20% (2008: 24%). The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

|   | <i>30 September</i> |              | <i>30 September</i> |               |
|---|---------------------|--------------|---------------------|---------------|
|   | <u>2009</u>         | <u>%</u>     | <u>2008</u>         | <u>%</u>      |
| Taxes on income per statutory tax rate                            | 553,279             | 20.00        | 379,139             | 20.00         |
| Provision for general banking risks                               | 53,000              | 1.92         | -                   | -             |
| Disallowable expenses   | 7,338               | 0.27         | 33,824              | 1.78          |
| Income items exempt from tax<br>or subject to different tax rates | (2,207)             | (0.08)       | (16,034)            | (0.84)        |
| Defined benefit obligation  | -                   | -            | (32,920)            | (1.74)        |
| Others  | <u>2,509</u>        | <u>0.09</u>  | <u>(4,357)</u>      | <u>(0.23)</u> |
| Taxation charge   | <u>613,919</u>      | <u>22.20</u> | <u>359,652</u>      | <u>18.97</u>  |

## 19 Taxation (continued)

The taxation charge is comprised of the following:

|                 | <i>For the nine-month period ended</i> |                     |
|-----------------|--|---------------------|
|                 | <i>30 September</i>                    | <i>30 September</i> |
|                 | <u><i>2009</i></u>                     | <u><i>2008</i></u>  |
| Current taxes   | 658,648                                | 387,158             |
| Deferred taxes  | <u>(44,729)</u>                        | <u>(27,506)</u>     |
| Taxation charge | <u>613,919</u>                         | <u>359,652</u>      |

The movement of current tax liability is as follows:

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u><i>2009</i></u>  | <u><i>2008</i></u> |
| Balance at the beginning of the period | 127,684             | 5,301              |
| Current period taxation charge         | 658,648             | 442,315            |
| Current taxes recognised under equity  | 215,805             | 135,665            |
| Less: Prepaid corporate taxes          | <u>(592,736)</u>    | <u>(455,597)</u>   |
| Current tax liability                  | <u>409,401</u>      | <u>127,684</u>     |

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the year. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Income tax assets/(liabilities) recognised directly in equity is as follows:

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u><i>2009</i></u>  | <u><i>2008</i></u> |
| Unrealised gains on available-for-sale assets | (345,549)           | (50,461)           |
| Hedging reserve                               | <u>607</u>          | <u>812</u>         |
|   | <u>(344,942)</u>    | <u>(49,649)</u>    |

Deferred tax asset and liabilities are attributable to the items detailed in the table below:

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u><i>2009</i></u>  | <u><i>2008</i></u> |
| <i>Deferred tax asset</i>                                |                     |                    |
| Impairment losses on loans                               | 75,456              | 68,266             |
| Short-term employee benefits                             | 34,367              | 31,684             |
| Valuation difference on financial assets and liabilities | 28,499              | 27,190             |
| Defined benefit obligations                              | 20,520              | 20,520             |
| Impairment of equity participations and tangible assets  | 20,127              | 21,974             |
| Reserve for employee severance indemnity                 | 8,225               | 8,893              |
| Discount on miscellaneous receivables                    | 7,377               | 6,932              |
| Accruals on credit card rewards                          | 6,701               | 7,241              |
| Pro-rata basis depreciation expenses                     | (12,845)            | (16,710)           |
| Prepaid expenses and promotions                          | (23,072)            | (33,860)           |
| Others, net  | <u>(17,758)</u>     | <u>(22,385)</u>    |
| Total deferred tax asset                                 | <u>147,597</u>      | <u>119,745</u>     |
| <i>Deferred tax liability</i>                            |                     |                    |
| Total deferred tax liability                             | <u>13,068</u>       | <u>-</u>           |

## 19 Taxation (continued)

As of 30 September 2009, there are not any deferred tax assets and liabilities that have not been recognized in the accompanying consolidated financial statements.

Movements in deferred tax assets and liabilities are detailed in the table below:

|  | <i>Opening<br/>Balance</i> | <i>Recognized in<br/>Income<br/>statement</i> | <i>Recognized<br/>in equity</i> | <i>Closing<br/>balance</i> |
|--|----------------------------|---|---------------------------------|----------------------------|
| <b><u>30 September 2009</u></b>                          |                            |   |                                 |                            |
| Impairment losses on loans                               | 68,266                     | 7,190   | -                               | 75,456                     |
| Short-term employee benefits                             | 31,684                     | 2,683   | -                               | 34,367                     |
| Valuation difference on financial assets and liabilities | 27,190                     | 31,049  | (29,740)                        | 28,499                     |
| Defined benefit obligations                              | 20,520                     | -   | -                               | 20,520                     |
| Impairment of equity participations and tangible assets  | 21,974                     | (1,847)                                       | -                               | 20,127                     |
| Reserve for employee severance indemnity                 | 8,893                      | (668)   | -                               | 8,225                      |
| Discount on miscellaneous receivables                    | 6,932                      | 445   | -                               | 7,377                      |
| Accruals on credit card rewards                          | 7,241                      | (540)   | -                               | 6,701                      |
| Pro-rata basis depreciation expenses                     | (16,710)                   | 3,865   | -                               | (12,845)                   |
| Prepaid expenses and promotions                          | (33,860)                   | 10,788  | -                               | (23,072)                   |
| Others, net  | <u>(22,385)</u>            | <u>(8,236)</u>                                | <u>(205)</u>                    | <u>(30,826)</u>            |
| Net deferred tax asset                                   | <u>119,745</u>             | <u>44,729</u>                                 | <u>(29,945)</u>                 | <u>134,529</u>             |

|  | <i>Opening<br/>Balance</i> | <i>Recognized in<br/>Income<br/>statement</i> | <i>Recognized<br/>in equity</i> | <i>Closing<br/>balance</i> |
|--|----------------------------|---|---------------------------------|----------------------------|
| <b><u>31 December 2008</u></b>                           |                            |   |                                 |                            |
| Impairment losses on loans                               | 47,675                     | 20,591  | -                               | 68,266                     |
| Short-term employee benefits                             | 20,088                     | 11,596  | -                               | 31,684                     |
| Valuation difference on financial assets and liabilities | 17,114                     | 6,176   | 3,900                           | 27,190                     |
| Impairment of equity participations and tangible assets  | 26,668                     | (4,694)                                       | -                               | 21,974                     |
| Defined benefit obligations                              | -                          | 20,520  | -                               | 20,520                     |
| Reserve for employee severance indemnity                 | 9,125                      | (232)   | -                               | 8,893                      |
| Accruals on credit card rewards                          | 9,844                      | (2,603)                                       | -                               | 7,241                      |
| Discount on miscellaneous receivables                    | 2,278                      | 4,654   | -                               | 6,932                      |
| Pro-rata basis depreciation expenses                     | (10,992)                   | (5,718)                                       | -                               | (16,710)                   |
| Prepaid expenses and promotions                          | (21,203)                   | (12,657)                                      | -                               | (33,860)                   |
| Others, net  | <u>3,845</u>               | <u>(28,095)</u>                               | <u>1,865</u>                    | <u>(22,385)</u>            |
| Net deferred tax asset                                   | <u>104,442</u>             | <u>9,538</u>                                  | <u>5,765</u>                    | <u>119,745</u>             |

### *Transfer pricing*

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “disguised profit distribution” by way of transfer pricing. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

## 19 Taxation (continued)

As stated in the “7.1 Annual Documentation” section of this communiqué, the taxpayers are required to fill out the “Transfer Pricing, Controlled Foreign Entities and Thin Capitalization” form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

## 20 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

|  | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
|  | <u>2009</u>         | <u>2008</u>        |
| Blocked accounts against expenditures of card holders        | 2,217,327           | 1,815,228          |
| Payables to insurance and reinsurance companies              |                     |                    |
| relating to insurance business                               | 1,253,478           | 905,744            |
| Accrued exchange losses on derivatives                       | 390,005             | 605,962            |
| Provision for general banking risks                          | 295,000             | 30,000             |
| Cheques at clearing house                                    | 204,356             | 48,879             |
| Short-term employee benefits                                 | 168,512             | 154,992            |
| Withholding taxes  | 154,086             | 268,635            |
| Transfer orders  | 138,998             | 66,793             |
| Insurance business related provisions                        | 132,136             | 123,603            |
| Unearned income  | 128,242             | 107,673            |
| Recognized liability for defined benefit obligations         | 102,601             | 102,601            |
| Provision for non-cash loans                                 | 92,978              | 39,959             |
| Expense accruals   | 63,256              | 85,350             |
| Miscellaneous payables                                       | 61,757              | 69,724             |
| Reserve for employee severance indemnity                     | 42,347              | 45,513             |
| Blocked accounts   | 37,352              | 35,561             |
| Payables to suppliers relating to financial lease activities | 27,908              | 52,691             |
| Others   | <u>57,654</u>       | <u>96,861</u>      |
|  | <u>5,567,993</u>    | <u>4,655,769</u>   |

As of 30 September 2009, a general provision amounting to TL 295,000 thousands (31 December 2008: TL 30,000 thousands) is provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of provision for general banking risks.

### *Recognized liability for defined benefit obligations*

#### *(i) Defined benefit plan*

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank’s obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the New Law in May 2008. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 *Employee Benefits* as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount

## **20 Other liabilities and accrued expenses (continued)**

rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted as a defined benefit plan under IAS 19.

### **a) Pension and medical benefits transferable to SSF**

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 (“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 at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceed the amount that will be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

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 no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date.

At 19 June 2008, Cumhuriyet Halk Partisi (“CHP”) is applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. As of the issuing date of the accompanying consolidated financial statements, there is not any published ruling of the Constitutional Court regarding this application.

The Bank obtained an actuarial report dated 5 February 2009 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that will be required to be paid to transfer the obligation at 31 December 2008.

## 20 Other liabilities and accrued expenses (continued)

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2008 the present value of funded obligations amount to TL 176,416 thousands and the fair value of the planned assets amount to TL 621,594 thousands.

|  | <b><u>31 December</u></b><br><b><u>2008</u></b> |
|--|---|
| Present value of funded obligations  |   |
| - Pension benefits transferable to SSF (obligation measured at the expected transfer amount) | (296,328)                                       |
| - Medical benefits transferable to SSF (obligation measured at the expected transfer amount) | 135,400   |
| - General administrative expenses  | <u>(15,488)</u>                                 |
|  | (176,416)                                       |
| Fair value of plan assets  | <u>621,594</u>                                  |
| Asset surplus in the plan (*)  | <u>445,178</u>                                  |

(\*) *Asset surplus in this plan will be used as plan assets of the excess benefit plan.*

Plan assets consist of the following:

|                         | <b><u>31 December</u></b><br><b><u>2008</u></b> |
|-------------------------|---|
| Securities              | 480,552   |
| Land and buildings      | 110,600   |
| Cash and due from banks | <u>30,442</u>                                   |
|                         | <u>621,594</u>                                  |

### b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

|   | <b><u>31 December</u></b><br><b><u>2008</u></b> |
|---|---|
| Present value of defined benefit obligations                            |   |
| - Pension   | (162,356)                                       |
| - Health  | (250,023)                                       |
| Fair value of plan assets (*)   | <u>445,178</u>                                  |
| Asset surplus/(shortage) on present value of defined benefit obligation | <u>32,799</u>                                   |

(\*) *Plan assets are composed of asset surplus in the plan explained in paragraph a).*

As per the actuarial calculation performed as of 31 December 2008 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covers the benefits not transferable and still a surplus of TL 32,799 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting TL 135,400

## 20 Other liabilities and accrued expenses (continued)

thousands as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF and accordingly, kept recognizing a provision amounting TL 102,601 thousands as its liability in the accompanying consolidated financial statements as of 31 December 2008.

|   | <i><b>31 December<br/>2008</b></i> |
|---|------------------------------------|
| Asset surplus over present value of defined benefit obligation                | 32,799                             |
| Net present value of medical benefits and health premiums transferable to SSF | <u>(135,400)</u>                   |
| Present value of defined benefit obligation                                   | <u>(102,601)</u>                   |

The pension benefits are calculated annually by an independent actuary. In the accompanying interim financial statements, the pension liability calculated as of 31 December 2008 is preserved.

Expenses recognized regarding this benefit plan in the accompanying consolidated statements of comprehensive income for the nine-month periods ended 30 September 2009 and 2008 are as follows:

|                                  | <i><b>30 September<br/>2009</b></i> | <i><b>30 September<br/>2008</b></i> |
|----------------------------------|-------------------------------------|-------------------------------------|
| Total contribution payment       | 83,833                              | 86,715                              |
| Provision for unfunded liability | <u>-</u>                            | <u>-</u>                            |
|                                  | <u>83,833</u>                       | <u>86,715</u>                       |

Principal actuarial assumptions used are as follows:

|                                   | <i><b>31 December 2008</b></i> |
|-----------------------------------|--------------------------------|
|                                   | <u>%</u>                       |
| Discount rates                    | 17.41-10.51                    |
| Inflation rates                   | 9.50-5.73                      |
| Future real salary increase rates | 1.5                            |
| Medical cost trend rates          | 17.80-11.77                    |
| Future pension increase rates     | 9.50-5.73                      |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

The sensitivity analysis of defined benefit obligation of excess liabilities are as follows:

|                                 | <i><b>31 December 2008</b></i>                       |                                |                       |
|---------------------------------|--|--------------------------------|-----------------------|
|                                 | <i><b>% change in defined benefit obligation</b></i> |                                |                       |
| <u><b>Assumption change</b></u> | <u><b>Pension Benefits</b></u>                       | <u><b>Medical Benefits</b></u> | <u><b>Overall</b></u> |
|                                 | <u><b>%</b></u>                                      | <u><b>%</b></u>                | <u><b>%</b></u>       |
| Discount rate +1%               | (10.5)   | (14.2)                         | (12.8)                |
| Discount rate -1%               | 13.1   | 18.3                           | 16.3                  |
| Medical inflation +10% of CPI   |  | 16.6                           | 10.1                  |
| Medical inflation -10% of CPI   |  | (7.9)                          | (4.8)                 |

## 20 Other liabilities and accrued expenses (continued)

### *Short-term employee benefits*

Movement in the provision for short-term employee benefits are as follows:

|                                  | <i>30 September</i> | <i>31 December</i> |
|----------------------------------|---------------------|--------------------|
|                                  | <u>2009</u>         | <u>2008</u>        |
| Balance, beginning of the period | 154,992             | 100,402            |
| Payments during the period, net  | (146,315)           | (217,834)          |
| Provision for the period, net    | <u>159,835</u>      | <u>272,424</u>     |
| Balance, end of the period       | <u>168,512</u>      | <u>154,992</u>     |

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

|                                    | <i>30 September</i> | <i>31 December</i> |
|------------------------------------|---------------------|--------------------|
|                                    | <u>2009</u>         | <u>2008</u>        |
| Reserve for unearned premiums, net | 51,958              | 43,571             |
| <i>Gross</i>                       | 86,642              | 53,666             |
| <i>Reinsurers' share</i>           | (34,684)            | (10,095)           |
| Provision for claims, net          | 10,061              | 7,428              |
| <i>Gross</i>                       | 15,255              | 7,765              |
| <i>Reinsurers' share</i>           | (5,194)             | (337)              |
| Life mathematical reserves         | <u>70,117</u>       | <u>72,604</u>      |
|                                    | <u>132,136</u>      | <u>123,603</u>     |

### *Reserve for employee severance indemnity*

Movement in the reserve for employee severance indemnity is as follows:

|                                  | <i>30 September</i> | <i>31 December</i> |
|----------------------------------|---------------------|--------------------|
|                                  | <u>2009</u>         | <u>2008</u>        |
| Balance, beginning of the period | 45,513              | 44,868             |
| Reversals during the period      | (3,488)             | (8,816)            |
| Provision for the period         | <u>322</u>          | <u>9,461</u>       |
| Balance, end of the period       | <u>42,347</u>       | <u>45,513</u>      |

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are TL 2,365.16 and TL 2,173.18 as of 30 September 2009 and 31 December 2008, respectively.

The principal actuarial assumptions are as follows:

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2009</u>         | <u>2008</u>        |
|   | <u>%</u>            | <u>%</u>           |
| Discount rate   | 6.26                | 6.26               |
| Interest rate   | 12.00               | 12.00              |
| Expected rate of salary/limit increase (*)              | 5.40                | 5.40               |
| Turnover rate to estimate the probability of retirement | 6.55                | 6.55               |

(\*) Determined based on the government's future targets for annual inflation.

## 20 Other liabilities and accrued expenses (continued)

### *Provision for non-cash loans*

Movement in the provision for non-cash loans are as follows:

|                                  | <i>30 September</i> | <i>31 December</i> |
|----------------------------------|---------------------|--------------------|
|                                  | <u>2009</u>         | <u>2008</u>        |
| Balance, beginning of the period | 39,959              | 32,142             |
| Provision for the period, net    | <u>53,019</u>       | <u>7,817</u>       |
| Balance, end of the period       | <u>92,978</u>       | <u>39,959</u>      |

## 21 Shareholders' equity

### *Share capital and share premium*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 September 2009.

At the "General Assembly of Founder Shares Owners" and the "Extraordinary General Shareholders" meetings held at 13 June 2008, the Bank decided to repurchase all the 370 founder share-certificates issued in order to redeem and exterminate them, subsequent to the permissions obtained from the related legal authorities, at a value of TL 3,876 thousands each in accordance with the report prepared by the court expert and approved by the Istanbul 5<sup>th</sup> Commercial Court of First Instance. A total payment of TL 1,434,233 thousands has been made to the owners of 368 founder share-certificates from "retained earnings", and the value of remaining two founder share-certificates has been blocked in the bank accounts. Subsequent to these purchases, the clauses 15, 16 and 45 of the Articles of Association of the Bank have been revised accordingly.

It has been resolved in the Bank's board of directors meeting held at 22 April 2008 that the paid share capital of the Bank is to be increased by TL 2,100,000 thousands from TL 2,100,000 thousands to TL 4,200,000 thousands. Accordingly, the pre-emptive rights on 210,000,000 shares with a total nominal value of TL 2,100,000 thousands have been used during the period between 9 and 23 June 2008. The remaining shares with a total nominal value of TL 5,525 thousands have been sold for the amount of TL 17,405 thousands during the public offering on the ISE primary market. The capital increase is approved by the Istanbul Commercial Registry at 31 July 2008, and accordingly TL 2,100,000 thousands of the cash collected is transferred to "share capital" and the excess balance amounting TL 11,880 thousands over the nominal values of new shares issued to "share premium".

### *Minority interest*

As at 30 September 2009, net minority interest amounts to TL 46,124 thousands (31 December 2008: TL 35,201 thousands). Minority interest is detailed as follows:

|                                      | <i>30 September</i> | <i>31 December</i> |
|--------------------------------------|---------------------|--------------------|
|                                      | <u>2009</u>         | <u>2008</u>        |
| Capital                              | 14,250              | 14,012             |
| Retained earnings and other reserves | 20,922              | 9,389              |
| Current period net income            | <u>10,952</u>       | <u>11,800</u>      |
|                                      | <u>46,124</u>       | <u>35,201</u>      |

## 21 Shareholders' equity (continued)

*Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:*

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Balance at the beginning of the period                                     | 177,751                            | 189,382                           |
| Net unrealised gains from changes in fair value                            | 1,677,926                          | 81,536                            |
| Related deferred and current income taxes                                  | (323,592)                          | (31,896)                          |
| Net gains transferred to the statement of comprehensive income on disposal | (142,967)                          | (76,435)                          |
| Related deferred and current income taxes                                  | <u>28,504</u>                      | <u>15,164</u>                     |
| Balance at the end of the period   | <u>1,417,622</u>                   | <u>177,751</u>                    |

### *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 24 for the details).

### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The Bank, as the parent bank, had applied net investment hedge accounting for the exchange rate differences on the net investment risks on its foreign affiliates and its related financial liabilities in foreign currencies in the previous periods. The Bank prospectively discontinued this application as of 1 January 2009 within the framework of IFRIC 16 *Comment on Hedges of a Net Investment in a Foreign Operation*, effective for annual periods beginning on or after 1 October 2008.

### *Legal reserves*

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 383,645 thousands in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

At the extraordinary general assembly of the Bank held on 3 September 2009, it was decided to distribute a dividend of TL 275,000 thousands to shareholders and to allocate TL 6,500 thousands to second legal reserves from retained earnings.

## 22 Fair value information

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 best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its

## 22 Fair value information (continued)

financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 55,057,407 thousands (31 December 2008: TL 53,874,335 thousands), whereas the carrying amount is TL 54,766,862 thousands (31 December 2008: TL 53,870,069 thousands) in the accompanying consolidated statement of financial position as at 30 September 2009.

Fair value of investment securities is TL 33,910,791 thousands (31 December 2008: TL 26,117,422 thousands), whereas the carrying amount is TL 33,273,791 thousands (31 December 2008: TL 26,112,129 thousands) in the accompanying consolidated statement of financial position as at 30 September 2009.

## 23 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

|                      | <i>30 September</i> | <i>31 December</i> |
|----------------------|---------------------|--------------------|
|                      | <u>2009</u>         | <u>2008</u>        |
| Letters of guarantee | 12,354,592          | 11,012,449         |
| Letters of credit    | 2,880,468           | 3,320,801          |
| Acceptance credits   | 156,001             | 123,807            |
| Others               | -                   | 110,000            |
|                      | <u>15,391,061</u>   | <u>14,567,057</u>  |

As at 30 September 2009, commitment for uncalled capital of affiliated companies amounts to TL 14,396 thousands (31 December 2008: TL 812 thousands).

As at 30 September 2009, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for “credit linked notes” amount approximately to TL 18,788,609 thousands (31 December 2008: TL 17,520,902 thousands) in total.

As at 30 September 2009, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 517,769 thousands (31 December 2008: TL 340,676 thousands) in total.

As at 30 September 2009, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 29,331,813 thousands (31 December 2008: TL 24,023,479 thousands), approximately 85% of which are due within a year.

## 23 Commitments and contingencies (continued)

The breakdown of outstanding commitments arising from derivatives is presented as follows:

|   | <u>30 September 2009</u> |                   | <u>31 December 2008</u> |                   |
|---|--------------------------|-------------------|-------------------------|-------------------|
|   | <u>Purchases</u>         | <u>Sales</u>      | <u>Purchases</u>        | <u>Sales</u>      |
| Forward agreements for customer dealing activities                  | 547,694                  | 688,660           | 615,838                 | 893,999           |
| Currency swap agreements for customer dealing activities            | 669,694                  | 116,219           | 839,727                 | 74,756            |
| Options for customer dealing activities                             | 2,113,546                | 395,396           | 214,852                 | 216,481           |
| Forward agreements for hedging purposes                             | 652,599                  | 636,835           | 685,667                 | 205,272           |
| Currency swap agreements for hedging purposes                       | 6,177,382                | 4,953,925         | 6,574,919               | 7,498,424         |
| Interest rate and credit default swap agreements                    | 230,232                  | 264,214           | 71,108                  | 343,647           |
| Interest rate, foreign currency and securities options              | 4,553,251                | 6,310,059         | 2,324,025               | 2,568,395         |
| Forward rate agreements, foreign currency and interest rate futures | 5,860                    | 16,762            | 2,273                   | 13,279            |
| Forward agreements for gold trading                                 | 72,445                   | 105,952           | 7,849                   | 145,009           |
| Spot foreign currency transactions                                  | 450,210                  | 370,878           | 483,788                 | 244,171           |
|   | <u>15,472,913</u>        | <u>13,858,900</u> | <u>11,820,046</u>       | <u>12,203,433</u> |

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of comprehensive income, except for contracts of cash flow hedges as stated above. At 30 September 2009, approximately 77% of the net foreign currency open position of the consolidated statement of financial position was hedged through the use of foreign currency contracts (31 December 2008: 112%).

## 23 Commitments and contingencies (continued)

| <u>30 September 2009</u>             | <u>Notional amount with remaining life of</u> |                      |                      |                       |                    | <u>Total</u>      |
|--------------------------------------|---|----------------------|----------------------|-----------------------|--------------------|-------------------|
|                                      | <u>Up to 1 month</u>                          | <u>1 to 3 months</u> | <u>3 to 6 months</u> | <u>6 to 12 months</u> | <u>Over 1 year</u> |                   |
| <u>Interest Rate Derivatives</u>     |   |                      |                      |                       |                    |                   |
| Interest rate swaps                  | 84,713  | 53,435               | 13,061               | 101,885               | 241,352            | 494,446           |
| <i>Purchases</i>                     | 3,477   | 4,369                | 11,086               | 6,573                 | 204,727            | 230,232           |
| <i>Sales</i>                         | 81,236  | 49,066               | 1,975                | 95,312                | 36,625             | 264,214           |
| Interest rate futures                | -   | 5,094                | -                    | -                     | -                  | 5,094             |
| <i>Purchases</i>                     | -   | -                    | -                    | -                     | -                  | -                 |
| <i>Sales</i>                         | -   | 5,094                | -                    | -                     | -                  | 5,094             |
| <u>Other Derivatives</u>             |   |                      |                      |                       |                    |                   |
| Securities, shares and index options | 32,195  | 102,550              | -                    | -                     | 3,426,080          | 3,560,825         |
| <i>Purchases</i>                     | 12,213  | 102,550              | -                    | -                     | 1,713,040          | 1,827,803         |
| <i>Sales</i>                         | 19,982  | -                    | -                    | -                     | 1,713,040          | 1,733,022         |
| Other forward contracts              | 168,765                                       | 5,240                | 4,392                | -                     | -                  | 178,397           |
| <i>Purchases</i>                     | 62,813  | 5,240                | 4,392                | -                     | -                  | 72,445            |
| <i>Sale</i>                          | 105,952                                       | -                    | -                    | -                     | -                  | 105,952           |
| <u>Currency Derivatives</u>          |   |                      |                      |                       |                    |                   |
| Spot exchange contracts              | 821,088                                       | -                    | -                    | -                     | -                  | 821,088           |
| <i>Purchases</i>                     | 450,210                                       | -                    | -                    | -                     | -                  | 450,210           |
| <i>Sales</i>                         | 370,878                                       | -                    | -                    | -                     | -                  | 370,878           |
| Forward exchange contracts           | 1,606,394                                     | 568,946              | 130,926              | 81,841                | 137,681            | 2,525,788         |
| <i>Purchases</i>                     | 746,477                                       | 318,897              | 36,775               | 43,841                | 54,303             | 1,200,293         |
| <i>Sales</i>                         | 859,917                                       | 250,049              | 94,151               | 38,000                | 83,378             | 1,325,495         |
| Currency/cross currency swaps        | 6,873,037                                     | 1,810,832            | 2,474,587            | 297,640               | 461,124            | 11,917,220        |
| <i>Purchases</i>                     | 3,913,769                                     | 1,616,224            | 619,248              | 236,711               | 461,124            | 6,847,076         |
| <i>Sales</i>                         | 2,959,268                                     | 194,608              | 1,855,339            | 60,929                | -                  | 5,070,144         |
| Options                              | 5,920,410                                     | 2,623,289            | 693,478              | 574,250               | -                  | 9,811,427         |
| <i>Purchases</i>                     | 2,997,015                                     | 1,204,107            | 319,721              | 318,151               | -                  | 4,838,994         |
| <i>Sales</i>                         | 2,923,395                                     | 1,419,182            | 373,757              | 256,099               | -                  | 4,972,433         |
| Foreign currency futures             | -   | 17,528               | -                    | -                     | -                  | 17,528            |
| <i>Purchases</i>                     | -   | 5,860                | -                    | -                     | -                  | 5,860             |
| <i>Sale</i>                          | -   | 11,668               | -                    | -                     | -                  | 11,668            |
| Subtotal Purchases                   | 8,185,974                                     | 3,257,247            | 991,222              | 605,276               | 2,433,194          | 15,472,913        |
| Subtotal Sales                       | <u>7,320,628</u>                              | <u>1,929,667</u>     | <u>2,325,222</u>     | <u>450,340</u>        | <u>1,833,043</u>   | <u>13,858,900</u> |
| Total of Transactions                | <u>15,506,602</u>                             | <u>5,186,914</u>     | <u>3,316,444</u>     | <u>1,055,616</u>      | <u>4,266,237</u>   | <u>29,331,813</u> |

## 23 Commitments and contingencies (continued)

| <u>31 December 2008</u>              | <u>Notional amount with remaining life of</u> |                      |                      |                       |                    | <u>Total</u> |
|--------------------------------------|---|----------------------|----------------------|-----------------------|--------------------|--------------|
|                                      | <u>Up to 1 month</u>                          | <u>1 to 3 months</u> | <u>3 to 6 months</u> | <u>6 to 12 months</u> | <u>Over 1 year</u> |              |
| <u>Interest Rate Derivatives</u>     |   |                      |                      |                       |                    |              |
| Interest rate swaps                  | 3,105   | 17,728               | 182,942              | 194,733               | 16,247             | 414,755      |
| Purchases                            | 705   | 12,124               | 26,473               | 16,606                | 15,200             | 71,108       |
| Sales                                | 2,400   | 5,604                | 156,469              | 178,127               | 1,047              | 343,647      |
| Interest rate futures                | -   | 4,709                | 1                    | -                     | -                  | 4,710        |
| Purchases                            | -   | -                    | 1                    | -                     | -                  | 1            |
| Sales                                | -   | 4,709                | -                    | -                     | -                  | 4,709        |
| <u>Other Derivatives</u>             |   |                      |                      |                       |                    |              |
| Securities, shares and index options | -   | -                    | 68,200               | 30,969                | 1,692,640          | 1,791,809    |
| Purchases                            | -   | -                    | 68,200               | 10,642                | 846,320            | 925,162      |
| Sales                                | -   | -                    | -                    | 20,327                | 846,320            | 866,647      |
| Other forward contracts              | 128,009                                       | 15,974               | 8,875                | -                     | -                  | 152,858      |
| Purchases                            | 5,970   | 1,879                | -                    | -                     | -                  | 7,849        |
| Sale                                 | 122,039                                       | 14,095               | 8,875                | -                     | -                  | 145,009      |
| <u>Currency Derivatives</u>          |   |                      |                      |                       |                    |              |
| Spot exchange contracts              | 727,959                                       | -                    | -                    | -                     | -                  | 727,959      |
| Purchases                            | 483,788                                       | -                    | -                    | -                     | -                  | 483,788      |
| Sales                                | 244,171                                       | -                    | -                    | -                     | -                  | 244,171      |
| Forward exchange contracts           | 1,102,185                                     | 712,221              | 211,708              | 198,808               | 175,854            | 2,400,776    |
| Purchases                            | 661,873                                       | 333,970              | 139,056              | 98,498                | 68,108             | 1,301,505    |
| Sales                                | 440,312                                       | 378,251              | 72,652               | 100,310               | 107,746            | 1,099,271    |
| Currency/cross currency swaps        | 7,022,439                                     | 3,030,341            | 1,925,012            | 2,148,225             | 861,809            | 14,987,826   |
| Purchases                            | 2,570,681                                     | 1,438,698            | 880,855              | 1,754,017             | 770,395            | 7,414,646    |
| Sales                                | 4,451,758                                     | 1,591,643            | 1,044,157            | 394,208               | 91,414             | 7,573,180    |
| Options                              | 1,344,168                                     | 764,560              | 748,252              | 649,095               | 25,869             | 3,531,944    |
| Purchases                            | 515,908                                       | 404,703              | 414,572              | 266,926               | 11,606             | 1,613,715    |
| Sales                                | 828,260                                       | 359,857              | 333,680              | 382,169               | 14,263             | 1,918,229    |
| Foreign currency futures             | -   | 10,842               | -                    | -                     | -                  | 10,842       |
| Purchases                            | -   | 2,272                | -                    | -                     | -                  | 2,272        |
| Sale                                 | -   | 8,570                | -                    | -                     | -                  | 8,570        |
| Subtotal Purchases                   | 4,238,925                                     | 2,193,646            | 1,529,157            | 2,146,689             | 1,711,629          | 11,820,046   |
| Subtotal Sales                       | 6,088,940                                     | 2,362,729            | 1,615,833            | 1,075,141             | 1,060,790          | 12,203,433   |
| Total of Transactions                | 10,327,865                                    | 4,556,375            | 3,144,990            | 3,221,830             | 2,772,419          | 24,023,479   |

## **24 Financial risk management disclosures**

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and option risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 24.2 contains risk management information related to the trading portfolio and section 24.3 deals with the non-trading portfolio.

### ***Risk management framework***

Developing risk management policies and strategies, and controlling these functions are among the responsibilities of the Board of Directors. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Board of Directors monitors the effectiveness of the risk management system through the audit committee, other related committees and senior management.

The Bank's risk management policy is established on its maintainable long term, value adding growth strategy. This policy is measuring risks with the methods in compliance with its activities and international standards, and optimal allocation of economic capital to business lines considering the risk-return balance.

The Risk Management System consists of all the mechanisms related to establishment of standards, information flow, determination of the compliance with standards, decision making and applications processes; which were put into practice by the Board of Directors in order to monitor, control and change when deemed necessary the risk-return structure and the future cash flows of the Bank and the quality and the level of related activities.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 and 31 of the Banking Law No. 5411 and the Articles 36 and 43 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank revised the current written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

The Bank has purchased an integrated software system to place better risk management and Basel II applications in order to support and improve risk management activities. The Bank aims to establish the Basel II applications in line with BRSA's roadmap.

## **24 Financial risk management disclosures (continued)**

### *Audit Committee*

The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, which was established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

### *Other Committees*

Market, credit and operational sub-risk committees have been established in order to support the implementation of risk management and internal audit systems within the Bank by sharing information with the involved units.

### **24.1 Derivative financial instruments**

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 23. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

#### *Swaps*

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

#### *Futures and forwards*

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are futures exchanges. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

## **24 Financial risk management disclosures (continued)**

### *Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

### **24.2 Trading activities**

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

#### *Counterparty credit risk*

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

#### *Market risk*

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management by buying or selling instruments or entering into offsetting positions.

## 24 Financial risk management disclosures (continued)

### 24.3 Non-trading activities

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

#### *Liquidity risk*

Liquidity risk arises in the general funding of the Bank and its affiliates' activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank and its affiliates have access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank's liquidity risk management strategy.

#### *Exposure to liquidity risk*

The calculation method used to measure the banks compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of banks. The legislation requires the banks to meet minimum 80% liquidity ratio of foreign currency assets/liabilities and minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios for the first nine months of 2009 and the year of 2008 are as follows:

|             | <b>30 September 2009</b>                      |                       |   |                       |
|-------------|---|-----------------------|---|-----------------------|
|             | <b><u>First Maturity Bracket (Weekly)</u></b> |                       | <b><u>Second Maturity Bracket (Monthly)</u></b> |                       |
|             | <b><u>FC</u></b>                              | <b><u>FC + TL</u></b> | <b><u>FC</u></b>                                | <b><u>FC + TL</u></b> |
| Average (%) | 148.81  | 170.32                | 102.26  | 115.78                |
| Maximum (%) | 184.75  | 195.65                | 112.01  | 123.70                |
| Minimum (%) | 117.48  | 145.34                | 89.43   | 107.40                |
|             | <b>31 December 2008</b>                       |                       |   |                       |
|             | <b><u>First Maturity Bracket (Weekly)</u></b> |                       | <b><u>Second Maturity Bracket (Monthly)</u></b> |                       |
|             | <b><u>FC</u></b>                              | <b><u>FC + TL</u></b> | <b><u>FC</u></b>                                | <b><u>FC + TL</u></b> |
| Average (%) | 168.14  | 149.56                | 110.42  | 108.99                |
| Maximum (%) | 215.04  | 179.94                | 126.94  | 119.49                |
| Minimum (%) | 137.44  | 126.82                | 95.14   | 100.70                |

The Bank's banking affiliate in Holland is subject to a similar liquidity measurement, however the Dutch Central Bank does not impose limits, rather monitors the banks' overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Holland.

The Bank's banking affiliate in Russia is subject to three levels of liquidity requirement since 2004; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%. The affiliate complies with the local legislation.

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2009

(Currency : Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

|   | 30 September 2009 |                  |                   |                 |                | Total       | 31 December 2008 |                  |                   |                 |                | Total      |
|---|-------------------|------------------|-------------------|-----------------|----------------|-------------|------------------|------------------|-------------------|-----------------|----------------|------------|
|   | Up to<br>1 month  | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 year |             | Up to<br>1 month | 1 to 3<br>months | 3 to 12<br>months | 1 to 5<br>years | Over<br>5 year |            |
| <b>MONETARY ASSETS</b>                                |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| <b>Turkish Lira</b>                                   |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| Cash and balances with central banks                  | 5.270.056         | -                | -                 | -               | -              | 5.270.056   | 2.519.678        | -                | -                 | -               | -              | 2.519.678  |
| Financial assets at fair value through profit or loss | 51.807            | 5.323            | 66.749            | 102.112         | -              | 225.991     | 22.173           | 2.230            | 40.665            | 87.929          | 2.267          | 155.264    |
| Loans and advances to banks                           | 753.859           | 62.336           | 215.380           | 1.710.000       | -              | 2.741.575   | 739.727          | 40.897           | 71.053            | 956.707         | -              | 1.788.384  |
| Loans and advances to customers                       | 10.716.462        | 3.388.180        | 3.341.133         | 8.013.025       | 2.494.458      | 27.953.258  | 9.207.023        | 3.509.951        | 2.938.457         | 7.940.741       | 2.308.772      | 25.904.944 |
| Accrued exchange gain on derivatives                  | 89.694            | 47.904           | 507.074           | 150.759         | -              | 795.431     | 39.404           | 80.084           | 454.129           | 96.835          | 2.226          | 672.678    |
| Other assets  | 205.483           | 1.282.731        | 459               | 918             | 3.321          | 1.492.912   | 192.176          | 920.753          | 16                | 5               | 6.530          | 1.119.480  |
| Security investments                                  | 338.413           | 762.885          | 7.409.874         | 19.119.494      | -              | 27.630.666  | 77.398           | 1.094.374        | 2.103.031         | 17.051.920      | 790.999        | 21.117.722 |
| Deferred tax asset                                    | -                 | -                | -                 | 146.335         | -              | 146.335     | -                | -                | -                 | 102.031         | -              | 102.031    |
| Total Turkish Lira monetary assets                    | 17.425.774        | 5.549.359        | 11.540.669        | 29.242.643      | 2.497.779      | 66.256.224  | 12.797.579       | 5.648.289        | 5.607.351         | 26.216.168      | 3.110.794      | 53.380.181 |
| <b>Foreign currency</b>                               |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| Cash and balances with central banks                  | 1.129.358         | -                | -                 | -               | -              | 1.129.358   | 1.452.855        | -                | -                 | -               | -              | 1.452.855  |
| Financial assets at fair value through profit or loss | 16.134            | 24.680           | 136.346           | 1.172           | 5.637          | 185.969     | 85.930           | 3.052            | 125.437           | 187.228         | 7.226          | 408.873    |
| Loans and advances to banks                           | 2.066.143         | 1.157.115        | 641.503           | 237.236         | 2.400.390      | 6.502.387   | 3.736.536        | 262.072          | 1,127.298         | 313.532         | 776.419        | 6.215.857  |
| Loans and advances to customers                       | 2,350,554         | 2,503,763        | 5,460,669         | 7,651,617       | 8,605,632      | 26,572,235  | 1,272,896        | 2,782,704        | 6,070,877         | 8,346,844       | 9,304,124      | 27,777,445 |
| Accrued exchange gain on derivatives                  | 4,710             | -9,249           | 75,072            | 19,119          | 85             | 89,737      | 19,323           | 64,654           | 33,284            | 19,286          | 3,172          | 159,719    |
| Other assets  | 2,525,134         | 7,883            | -                 | 4,714           | 10,257         | 2,547,988   | 1,743,174        | 956              | 5,036             | 6,333           | 14,528         | 1,770,027  |
| Security investments                                  | 110,769           | 50,791           | 919,899           | 1,557,475       | 3,004,191      | 5,643,125   | 56,669           | 36,985           | 412,004           | 1,874,347       | 2,614,402      | 4,994,407  |
| Deferred tax asset                                    | -                 | -                | -                 | 1,262           | -              | 1,262       | -                | -                | -                 | 17,714          | -              | 17,714     |
| Total foreign currency monetary assets                | 8.202.802         | 3.734.983        | 7.233.489         | 9.472.595       | 14.026.192     | 42.670.061  | 8.367.383        | 3.150.423        | 7.773.936         | 10.765.284      | 12.719.871     | 42.776.897 |
| Total Monetary Assets                                 | 25.628.576        | 9.284.342        | 18.774.158        | 38.715.238      | 16.523.971     | 108.926.285 | 21.164.962       | 8.798.712        | 13.381.287        | 36.981.452      | 15.830.665     | 96.157.078 |
| <b>MONETARY LIABILITIES</b>                           |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| <b>Turkish Lira</b>                                   |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| Deposits  | 28.402.533        | 3.066.304        | 489.876           | 55.510          | -              | 32.014.223  | 26.490.260       | 2.273.438        | 255.104           | 99.786          | -              | 29.118.588 |
| Obligations under repurchase agreements               | 9,362,624         | 2,069,202        | 404,495           | 152,575         | -              | 11,988,896  | 9,880,488        | 325              | -                 | 571,711         | -              | 10,452,524 |
| Loans and advances from banks                         | 752.842           | 29.892           | 132.277           | 1,851,032       | 744.152        | 3,510,195   | 788.187          | 101.421          | 359.391           | 697.630         | 790.327        | 2,736,956  |
| Subordinated liabilities                              | -                 | -                | -                 | -               | -              | -           | -                | -                | -                 | -               | -              | -          |
| Accrued exchange loss on derivatives                  | 121.388           | 42.307           | 23.229            | 28.527          | 51.372         | 266.823     | 51.938           | 94.122           | 274.735           | 101.872         | 23.660         | 546.327    |
| Other liabilities and accrued expenses                | 2,533,023         | 3,512            | 1,911,946         | 206,694         | 667,976        | 5,323,151   | 2,042,108        | 1,553            | 1,382,351         | 193,635         | 532,116        | 3,951,763  |
| Total Turkish Lira monetary liabilities               | 41,172,410        | 5,211,217        | 2,961,823         | 2,294,338       | 1,463,500      | 53,103,288  | 39,252,981       | 2,470,839        | 2,271,581         | 1,664,634       | 1,146,103      | 46,806,158 |
| <b>Foreign currency</b>                               |                   |                  |                   |                 |                |             |                  |                  |                   |                 |                |            |
| Deposits  | 26,685,438        | 2,365,552        | 2,331,982         | 826,630         | 68,598         | 32,278,200  | 23,472,334       | 2,078,233        | 2,107,100         | 1,076,571       | 104,261        | 28,838,499 |
| Obligations under repurchase agreements               | 59,562            | 1                | 153,197           | -               | -              | 212,760     | 285,792          | 192,877          | 221,987           | -               | 0              | 700,656    |
| Loans and advances from banks                         | 370,548           | 1,201,800        | 3,123,110         | 3,695,209       | 2,735,329      | 11,125,996  | 273,750          | 433,303          | 4,712,709         | 3,246,269       | 2,040,596      | 10,706,627 |
| Subordinated liabilities                              | -                 | 53,365           | 31,653            | 9,175           | 923,230        | 1,017,423   | 798              | 571              | 51,900            | 99,839          | 794,422        | 947,530    |
| Accrued exchange loss on derivatives                  | 7,916             | 49,547           | 27,042            | 38,676          | -              | 123,181     | 10,788           | 15,484           | 14,559            | 18,673          | 131            | 59,635     |
| Other liabilities and accrued expenses                | 138,042           | 85,432           | 38,335            | 13,067          | 4,431          | 277,307     | 105,363          | 53,797           | 59,043            | 30              | 7,495          | 225,728    |
| Total foreign currency monetary liabilities           | 27,261,506        | 3,753,697        | 5,705,319         | 4,582,757       | 3,731,588      | 45,034,867  | 24,148,825       | 2,774,265        | 7,167,298         | 4,441,382       | 2,946,905      | 41,478,675 |
| Total Monetary Liabilities                            | 68,433,916        | 8,964,914        | 8,667,142         | 6,877,095       | 5,195,088      | 98,138,155  | 63,401,806       | 5,245,124        | 9,438,879         | 6,106,016       | 4,093,008      | 88,284,833 |

## **24 Financial risk management disclosures (continued)**

### *Market risk*

*Interest rate risk:* The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and nine months libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have indefinite maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Nine-Month Period Ended 30 September 2009

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensitivity of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings:

|   | 30 September 2009        |                          |                           |                         |                        |                                 |                    |
|---|--------------------------|--------------------------|---------------------------|-------------------------|------------------------|---------------------------------|--------------------|
|   | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Non-Interest<br/>Bearing</i> | <i>Total</i>       |
| <b>MONETARY ASSETS</b>                                |                          |                          |                           |                         |                        |                                 |                    |
| Cash and balances with central banks                  | 4,940,311                | -                        | -                         | -                       | -                      | 1,459,103                       | 6,399,414          |
| Financial assets at fair value through profit or loss | 29,939                   | 30,049                   | 202,500                   | 99,923                  | 5,378                  | 42,171                          | 409,960            |
| Loans and advances to banks                           | 2,900,434                | 3,373,244                | 2,025,419                 | 18,788                  | -                      | 926,077                         | 9,243,962          |
| Loans and advances to customers                       | 15,528,764               | 12,538,900               | 11,850,721                | 10,165,109              | 3,527,223              | 914,776                         | 54,525,493         |
| Other assets  | 159                      | 6,988                    | 459                       | 5,632                   | 13,574                 | 4,899,256                       | 4,926,068          |
| Security investments                                  | 2,764,086                | 1,972,895                | 12,786,678                | 10,861,100              | 2,125,817              | 2,763,215                       | 33,273,791         |
| Deferred tax asset                                    | -                        | -                        | -                         | -                       | -                      | 147,597                         | 147,597            |
| <b>Total Monetary Assets</b>                          | <b>26,163,693</b>        | <b>17,922,076</b>        | <b>26,865,777</b>         | <b>21,150,552</b>       | <b>5,671,992</b>       | <b>11,152,195</b>               | <b>108,926,285</b> |
| <b>MONETARY LIABILITIES</b>                           |                          |                          |                           |                         |                        |                                 |                    |
| Deposits  | 42,734,774               | 5,505,749                | 3,480,298                 | 744,043                 | 5,697                  | 11,821,862                      | 64,292,423         |
| Obligations under repurchase agreements               | 9,408,192                | 2,056,868                | 548,835                   | 149,999                 | -                      | 37,762                          | 12,201,656         |
| Loans and advances from banks                         | 6,102,646                | 4,288,564                | 3,528,327                 | 512,206                 | -                      | 204,448                         | 14,636,191         |
| Subordinated liabilities                              | -                        | 115,071                  | 868,886                   | 9,004                   | 12,505                 | 11,957                          | 1,017,423          |
| Other liabilities and accrued expenses                | -                        | -                        | -                         | -                       | -                      | 5,990,462                       | 5,990,462          |
| <b>Total Monetary Liabilities</b>                     | <b>58,245,612</b>        | <b>11,966,252</b>        | <b>8,426,346</b>          | <b>1,415,252</b>        | <b>18,202</b>          | <b>18,066,491</b>               | <b>98,138,155</b>  |
|   | 31 December 2008         |                          |                           |                         |                        |                                 |                    |
|   | <i>Up to<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 to 12<br/>months</i> | <i>1 to 5<br/>years</i> | <i>Over<br/>5 year</i> | <i>Non-Interest<br/>Bearing</i> | <i>Total</i>       |
| <b>MONETARY ASSETS</b>                                |                          |                          |                           |                         |                        |                                 |                    |
| Cash and balances with central banks                  | 212,283                  | -                        | -                         | -                       | -                      | 3,760,250                       | 3,972,533          |
| Financial assets at fair value through profit or loss | 57,294                   | 8,626                    | 164,468                   | 267,560                 | 9,169                  | 57,020                          | 564,137            |
| Loans and advances to banks                           | 3,778,517                | 1,109,182                | 1,984,869                 | 85,626                  | -                      | 1,046,047                       | 8,004,241          |
| Loans and advances to customers                       | 22,171,170               | 5,854,812                | 8,613,797                 | 11,118,960              | 4,777,650              | 1,146,000                       | 53,682,389         |
| Other assets  | 1,713,148                | 301                      | 5,052                     | 6,338                   | 21,056                 | 1,956,009                       | 3,701,904          |
| Security investments                                  | 1,461,403                | 7,793,738                | 5,410,603                 | 7,904,237               | 1,751,035              | 1,791,113                       | 26,112,129         |
| Deferred tax asset                                    | -                        | -                        | -                         | -                       | -                      | 119,745                         | 119,745            |
| <b>Total Monetary Assets</b>                          | <b>29,393,815</b>        | <b>14,766,659</b>        | <b>16,178,789</b>         | <b>19,382,721</b>       | <b>6,558,910</b>       | <b>9,876,184</b>                | <b>96,157,078</b>  |
| <b>MONETARY LIABILITIES</b>                           |                          |                          |                           |                         |                        |                                 |                    |
| Deposits  | 40,660,124               | 4,446,989                | 3,207,854                 | 650,287                 | -                      | 8,991,833                       | 57,957,087         |
| Obligations under repurchase agreements               | 10,135,486               | 189,213                  | 217,010                   | 549,999                 | -                      | 61,472                          | 11,153,180         |
| Loans and advances from banks                         | 7,704,272                | 3,079,578                | 1,856,570                 | 511,382                 | 3,076                  | 288,705                         | 13,443,583         |
| Subordinated liabilities                              | 13,283                   | 838,354                  | 61,398                    | 7,106                   | 3,408                  | 23,981                          | 947,530            |
| Other liabilities and accrued expenses                | -                        | -                        | -                         | -                       | -                      | 4,783,453                       | 4,783,453          |
| <b>Total Monetary Liabilities</b>                     | <b>58,513,165</b>        | <b>8,554,134</b>         | <b>5,342,832</b>          | <b>1,718,774</b>        | <b>6,484</b>           | <b>14,149,444</b>               | <b>88,284,833</b>  |

## 24 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first nine months of 2009 and the year of 2008:

|  | <i>30 September 2009</i> |                        |                       |   |
|--|--------------------------|------------------------|-----------------------|---|
|  | <i>US\$</i><br><i>%</i>  | <i>EUR</i><br><i>%</i> | <i>TL</i><br><i>%</i> | <i>Other</i><br><i>Currencies</i><br><i>%</i> |
| <i>Assets</i>  |                          |                        |                       |   |
| Loans and advances to banks                            | 0-8                      | 0-7                    | 8-14                  | 3-6   |
| Debt and other fixed or floating<br>income instruments | 6                        | 5                      | 14                    | -   |
| Loans and advances to customers                        | 0-18                     | 4-17                   | 7-32                  | 1-23  |
| <i>Liabilities</i>                                     |                          |                        |                       |   |
| Deposits:  |                          |                        |                       |   |
| - Foreign currency deposits                            | 0-8                      | 2-8                    | -                     | 1-11  |
| - Bank deposits  | 0-8                      | 0-7                    | 7-19                  | 0-7   |
| - Saving deposits                                      | -                        | -                      | 6-17                  | -   |
| - Commercial deposits                                  | -                        | -                      | 6-16                  | -   |
| - Public and other deposits                            | -                        | -                      | 10                    | -   |
| Obligations under repurchase agreements                | 4                        | -                      | 8                     | -   |
| Loans and advances from banks                          | 2-6                      | 1-6                    | 8-13                  | 3-12  |

|  | <i>31 December 2008</i> |                        |                       |   |
|--|-------------------------|------------------------|-----------------------|---|
|  | <i>US\$</i><br><i>%</i> | <i>EUR</i><br><i>%</i> | <i>TL</i><br><i>%</i> | <i>Other</i><br><i>Currencies</i><br><i>%</i> |
| <i>Assets</i>  |                         |                        |                       |   |
| Loans and advances to banks                            | 0-7                     | 1-8                    | 15-23                 | -   |
| Debt and other fixed or floating<br>income instruments | 7                       | 7                      | 20                    | -   |
| Loans and advances to customers                        | 2-19                    | 3-19                   | 17-35                 | 6-22  |
| <i>Liabilities</i>                                     |                         |                        |                       |   |
| Deposits:  |                         |                        |                       |   |
| - Foreign currency deposits                            | 1-7                     | 2-8                    | -                     | 2-11  |
| - Bank deposits  | 2-7                     | 2-7                    | 15-18                 | 1   |
| - Saving deposits                                      | -                       | -                      | 16-22                 | -   |
| - Commercial deposits                                  | -                       | -                      | 16-24                 | -   |
| - Public and other deposits                            | -                       | -                      | 22                    | -   |
| Obligations under repurchase agreements                | 3-5                     | 4-7                    | 15                    | 10  |
| Loans and advances from banks                          | 3-8                     | 5-7                    | 15-21                 | 2   |

## 24 Financial risk management disclosures (continued)

The market risk arising from trading transactions is calculated via Value at Risk (VaR). In addition to this, the stress tests and scenario analysis are performed. The interest rate risk of the statement of financial position is monitored with methods such as static duration, gap and sensitivity analysis.

Internal limits are set as well as legal limits in order to restrict market risk; value at risk limits for trading portfolio, position limits set for trading desks, single transaction limits set for traders and stop-loss limits. Approval, update, monitoring, override and warning procedures of these limits are put into practice and changed with the approval of the Board of Directors.

The consolidated value at market risks as of 30 September 2009 and 31 December 2008 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no.26333 dated 1 November 2006, are as follows:

|                     | <u>30 September 2009</u> |                  |                  | <u>31 December 2008</u> |                  |                  |
|---------------------|--------------------------|------------------|------------------|-------------------------|------------------|------------------|
|                     | <u>Average</u>           | <u>Highest</u>   | <u>Lowest</u>    | <u>Average</u>          | <u>Highest</u>   | <u>Lowest</u>    |
| Interest rates risk | 4,304,659                | 4,918,525        | 3,672,500        | 2,949,982               | 3,672,500        | 1,197,599        |
| Common share risk   | 119,250                  | 137,150          | 99,300           | 135,565                 | 200,888          | 50,527           |
| Currency risk       | 284,766                  | 392,163          | 215,850          | 185,936                 | 226,325          | 155,075          |
| Option risk         | <u>392,569</u>           | <u>587,950</u>   | <u>122,325</u>   | <u>214,980</u>          | <u>353,475</u>   | <u>122,325</u>   |
| Total value at risk | <u>5,101,244</u>         | <u>6,035,788</u> | <u>4,109,975</u> | <u>3,486,463</u>        | <u>4,453,188</u> | <u>1,525,526</u> |

### *Exposure to interest rate risk – non-trading portfolios*

The Bank that had already started working on risk management area before the regulations on Bank’s Internal Control and Risk Management Systems and Measurement and Assessment of Capital Adequacy Ratios of Banks issued by the BRSA in February 2001, restructured its internal systems in accordance with the related regulations under the responsibility of the board of directors and currently works accordingly.

In order to comply with the regulations, the Bank revisited its activities related with market risk management in accordance with “Regulation on Bank’s Internal Control and Risk Management Systems” and “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 26333 dated 1 November 2006.

The risk policies defined for the Bank’s market risk exposure and the applications are approved and reviewed regularly by the board of directors.

The top management is responsible for applying risk policies, principles and application procedures approved by the board of directors, ensuring timely and reliable reporting to the board of directors about the important risks identified, assessing internal control, internal audit and risk reports prepared for departments and either eliminating risks, deficiencies or defects identified in these departments or taking the necessary precautions to prevent those and participating in determination of risk limits.

## **24 Financial risk management disclosures (continued)**

The board of directors follows up the effectiveness of risk management systems through audit committee, related other committees and top management, and take decisions in the light of various risk reports and the assessments made by audit committee. The board of directors is responsible of healthy performance of internal systems.

Market risks arising from trading transactions are measured by internal risk measurement model using value at risk (VaR) methodology. In the VaR calculations, trading and available-for-sale portfolios are taken into account. VaR is calculated by three different methods, namely historical simulation, monte carlo simulation and parametric method. The Bank takes the historical VaR results as the basis for the internal management of market risk and determination of limits. The calculations made according to other two methods are used for comparison and monitoring purposes. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day retention period (10 days for legal capital adequacy calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations.

In the quantification of market risk arising from maturity mismatches of assets and liabilities, duration and variance analysis are also used. In duration analysis, the present values of interest sensitive asset and liability items are calculated based on their cash flows and yield curves developed from market interest rates. The results are supported by the sensitivity and scenario analysis performed periodically due to the prospective fluctuations in markets.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” and reported monthly.

### *Currency risk*

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

The Bank and its affiliates’ main foreign operations are in Holland and Moscow. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

## 24 Financial risk management disclosures (continued)

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved, excluding borrowings treated as hedges of net investments in foreign operations. These exposures are as follows:

|  | <u>30 September 2009</u> |                    |                         | <u>Total</u>       |
|--|--------------------------|--------------------|-------------------------|--------------------|
|  | <u>US\$</u>              | <u>EUR</u>         | <u>Other Currencies</u> |                    |
| <i>Assets</i>                              |                          |                    |                         |                    |
| Cash and balances with central banks       | 141,267                  | 926,513            | 61,578                  | 1,129,358          |
| Financial assets at fair value             |                          |                    |                         |                    |
| through profit or loss                     | 131,737                  | 36,888             | 15,344                  | 183,969            |
| Loans and advances to banks                | 3,556,391                | 2,876,957          | 69,039                  | 6,502,387          |
| Loans and advances to customers            | 16,239,242               | 9,597,084          | 849,312                 | 26,685,638         |
| Other assets                               | 1,454,970                | 1,293,457          | 16,504                  | 2,764,931          |
| Investment securities                      | 4,594,528                | 724,981            | 323,616                 | 5,643,125          |
| Investments in equity participations       | -                        | 682                | -                       | 682                |
| Tangible assets                            | 271                      | 83,064             | 16,815                  | 100,150            |
| Deferred tax asset                         | -                        | -                  | 1,262                   | 1,262              |
| <i>Total Assets</i>                        | <u>26,118,406</u>        | <u>15,539,626</u>  | <u>1,353,470</u>        | <u>43,011,502</u>  |
| <i>Liabilities</i>                         |                          |                    |                         |                    |
| Deposits                                   | 18,159,585               | 12,817,277         | 1,301,338               | 32,278,200         |
| Obligations under repurchase agreements    | 153,199                  | -                  | 59,561                  | 212,760            |
| Loans and advances from banks              | 6,582,347                | 4,429,685          | 113,964                 | 11,125,996         |
| Current and deferred tax liability         | -                        | 13,277             | -                       | 13,277             |
| Subordinated liabilities                   | 739,185                  | 278,238            | -                       | 1,017,423          |
| Other liabilities and accrued expenses     | 162,757                  | 197,241            | 27,213                  | 387,211            |
| <i>Total Liabilities</i>                   | <u>25,797,073</u>        | <u>17,735,718</u>  | <u>1,502,076</u>        | <u>45,034,867</u>  |
| <i>Net Statement of Financial Position</i> | <u>321,333</u>           | <u>(2,196,092)</u> | <u>(148,606)</u>        | <u>(2,023,365)</u> |
| <i>Net Off Balance Sheet Position</i>      | <u>(731,677)</u>         | <u>2,121,838</u>   | <u>166,923</u>          | <u>1,557,084</u>   |
| <i>Net Long/(Short) Position</i>           | <u>(410,344)</u>         | <u>(74,254)</u>    | <u>18,317</u>           | <u>(466,281)</u>   |
| <u>31 December 2008</u>                    |                          |                    |                         |                    |
|  | <u>US\$</u>              | <u>EUR</u>         | <u>Other Currencies</u> | <u>Total</u>       |
| <i>Total Assets</i>                        | <u>28,718,124</u>        | <u>13,236,609</u>  | <u>1,034,830</u>        | <u>42,989,563</u>  |
| <i>Total Liabilities</i>                   | <u>23,201,218</u>        | <u>17,321,887</u>  | <u>955,570</u>          | <u>41,478,675</u>  |
| <i>Net Statement of Financial Position</i> | <u>5,516,906</u>         | <u>(4,085,278)</u> | <u>79,260</u>           | <u>1,510,888</u>   |
| <i>Net Off Balance Sheet Position</i>      | <u>(5,762,984)</u>       | <u>4,080,591</u>   | <u>(10,020)</u>         | <u>(1,692,413)</u> |
| <i>Net Long/(Short) Position</i>           | <u>(246,078)</u>         | <u>(4,687)</u>     | <u>69,240</u>           | <u>(181,525)</u>   |

## **24 Financial risk management disclosures (continued)**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The net amount of Russian Rubles denominated assets and liabilities as included in the above table at their TL equivalents, is a net asset of TL 95,564 thousands at 30 September 2009 (31 December 2008: TL 90,379 thousands).

### *Credit risk*

The Bank and its affiliates are subject to credit risk through its trading, lending, hedging and investing activities and in cases where they act as intermediaries on behalf of customers or other third parties or issues guarantees.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003. Risk rating has become a requirement for loan applications, and ratings are used both to determine branch managers' credit authorization limits and in credit assessment process.

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 23).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

## 24 Financial risk management disclosures (continued)

### *Exposure to credit risk*

|                               | <i>Loans and advances<br/>to customers</i> |                             |
|-------------------------------|--|-----------------------------|
|                               | <i>30 September<br/>2009</i>               | <i>31 December<br/>2008</i> |
| Individually impaired         | 2,405,523                                  | 1,368,312                   |
| Allowance for impairment      | <u>(1,827,263)</u>                         | <u>(984,281)</u>            |
| Carrying amount               | <u>578,260</u>                             | <u>384,031</u>              |
| Collectively impaired         | -  | -                           |
| Allowance for impairment      | <u>(336,889)</u>                           | <u>(196,351)</u>            |
| Carrying amount               | <u>(336,889)</u>                           | <u>(196,351)</u>            |
| Past due but not impaired     | <u>627,495</u>                             | <u>607,054</u>              |
| Carrying amount               | <u>627,495</u>                             | <u>607,054</u>              |
| Neither past due nor impaired | 53,687,251                                 | 53,019,768                  |
| Loans with renegotiated terms | <u>210,745</u>                             | <u>55,567</u>               |
| Carrying amount               | <u>53,897,996</u>                          | <u>53,075,335</u>           |
| Total carrying amount         | <u>54,766,862</u>                          | <u>53,870,069</u>           |

As of 30 September 2009 and 31 December 2008, the Bank has no allowance for loans and advances to banks.

### *Impaired loans*

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

### *Sectoral and geographical concentration of impaired loans*

The Bank and its affiliates monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans and lease receivables is shown below:

|  | <i>30 September<br/>2009</i> | <i>31 December<br/>2008</i> |
|--|------------------------------|-----------------------------|
| Consumer loans                                   | 1,419,688                    | 808,931                     |
| Textile  | 219,957                      | 131,530                     |
| Construction                                     | 86,686                       | 50,755                      |
| Food   | 79,636                       | 40,260                      |
| Agriculture and stockbreeding                    | 78,511                       | 37,786                      |
| Chemistry and chemical products                  | 74,596                       | 70,525                      |
| Service sector                                   | 54,478                       | 29,128                      |
| Metal and metal products                         | 39,354                       | 17,371                      |
| Durable consumption                              | 29,869                       | 18,078                      |
| Others   | <u>322,748</u>               | <u>163,948</u>              |
| Total non-performing loans and lease receivables | <u>2,405,523</u>             | <u>1,368,312</u>            |

## 24 Financial risk management disclosures (continued)

|  | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|--|------------------------------------|-----------------------------------|
| Turkey   | 2,365,136                          | 1,343,227                         |
| Russia   | 15,071                             | 5,176                             |
| Romania  | 11,489                             | 5,905                             |
| Brasil   | 9,936                              | 10,327                            |
| Others   | <u>3,891</u>                       | <u>3,677</u>                      |
| Total non-performing loans and lease receivables | <u>2,405,523</u>                   | <u>1,368,312</u>                  |

### *Past due but not impaired loans*

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

### *Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio-basis loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

### *Write-off policy*

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the Court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

### *Collateral policy*

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 September 2009 and 31 December 2008.

Approximately 71% of the outstanding performing loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for performing guarantees and letters of credit is approximately 79%.

## 24 Financial risk management disclosures (continued)

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

|   | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|---|------------------------------------|-----------------------------------|
| <i>Cash loans</i>   |                                    |                                   |
| Secured loans:  | <u>38,274,367</u>                  | <u>37,858,171</u>                 |
| Secured by cash collateral  | 959,098                            | 1,217,556                         |
| Secured by mortgages  | 12,914,878                         | 12,945,098                        |
| Secured by government institutions or<br>government securities                              | 2,111,434                          | 2,015,479                         |
| Guarantees issued by financial institutions   | 237,901                            | 169,122                           |
| Other collateral (pledge on assets, corporate<br>and personal guarantees, promissory notes) | 22,051,056                         | 21,510,916                        |
| Unsecured loans   | <u>15,340,962</u>                  | <u>14,678,214</u>                 |
| Total performing loans and financial lease receivables                                      | <u>53,615,329</u>                  | <u>52,536,385</u>                 |
| <i>Non-cash loans</i>   |                                    |                                   |
| Secured loans:  | <u>12,218,585</u>                  | <u>12,007,037</u>                 |
| Secured by cash collateral  | 588,806                            | 594,599                           |
| Secured by mortgages  | 1,569,222                          | 1,453,631                         |
| Guarantees issued by financial institutions   | 62,026                             | 4,921                             |
| Other collateral (pledge on assets, corporate<br>and personal guarantees, promissory notes) | 9,998,531                          | 9,953,886                         |
| Unsecured loans   | <u>3,172,476</u>                   | <u>2,560,020</u>                  |
| Total non-cash loans  | <u>15,391,061</u>                  | <u>14,567,057</u>                 |

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

|                               | <i>30 September</i><br><u>2009</u> | <i>31 December</i><br><u>2008</u> |
|-------------------------------|------------------------------------|-----------------------------------|
| Mortgages                     | 605,476                            | 341,058                           |
| Promissory notes and sureties | 535,650                            | 295,228                           |
| Pledge assets                 | 258,269                            | 151,207                           |
| Cash collateral               | 2,491                              | 372                               |
| Unsecured                     | <u>1,003,637</u>                   | <u>580,447</u>                    |
|                               | <u>2,405,523</u>                   | <u>1,368,312</u>                  |

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

### *Operational risks*

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

## **24 Financial risk management disclosures (continued)**

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 14 of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks”.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

### *Capital management – regulatory capital*

BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates’ consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank’s management of capital during the period.

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

## 24 Financial risk management disclosures (continued)

The Bank's and its affiliates' regulatory capital position on a consolidated basis at 30 September 2009 and 31 December 2008 was as follows:

|   | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
|   | <u>2009</u>         | <u>2008</u>        |
| Tier 1 capital  | 11,230,257          | 9,506,293          |
| Tier 2 capital  | 2,049,124           | 1,415,587          |
| Deductions from capital   | <u>(105,873)</u>    | <u>(461,243)</u>   |
| Total regulatory capital  | <u>13,173,508</u>   | <u>10,460,637</u>  |
| Value at credit, market and operational risks   | <u>76,095,647</u>   | <u>70,429,654</u>  |
| <u>Capital ratios (%)</u>   |                     |                    |
| Total regulatory capital expressed as a percentage of total value at credit, market and operational risks | 17.31               | 14.85              |
| Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks     | 14.76               | 13.50              |

### 24.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

In prior periods, the Bank entered into various interest rate swap transactions in order to hedge its certain cash flow exposures primarily on floating rate assets and liabilities, through converting its floating rate income/payments into fixed rate income/payments. The following table includes certain characteristics of such swap transaction outstanding as of 30 September 2009:

| <i>Notional amount</i> | <i>Fixed payer rate (%)</i> | <i>Floating payer rate (%)</i> | <i>Fixed payment frequency</i> | <i>Maturity</i> |
|------------------------|-----------------------------|--------------------------------|--------------------------------|-----------------|
| US\$ 89.4 millions     | 3.35                        | 3 month Libor + 0.40           | Quarterly                      | 2012            |

In January 2009, the Bank has exercised eleven interest rate swap transactions held for cash flow risk management of the prior periods before their maturities. The Bank has recognized a total income amounting EUR 36,321,000 and US\$ 16,000,000 (equivalent of TL 100,808 thousands in total) collected on the same transaction dates as per the related agreements under trading income in the accompanying consolidated financial statements.

In January 2008, the Bank exercised four interest rate swap transactions held for cash flow risk management of the prior periods before their maturities. The Bank recognized a total income amounting US\$ 38,670,000 (equivalent of TL 45,002 thousands) collected on the same transaction dates as per the related agreements under trading income in the accompanying consolidated financial statements.

## 25 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities as at 30 September 2009:

| <u>Consolidated entities</u>                           | <u>Shareholding Interest (%)</u> |
|--|----------------------------------|
| Garanti Bank International NV                          | 100.00                           |
| Garanti Bank Moscow                                    | 100.00                           |
| Garanti Portföy Yönetimi AŞ                            | 100.00                           |
| Garanti Yatırım Menkul Kıymetler AŞ                    | 100.00                           |
| Garanti Financial Services plc.                        | 100.00                           |
| Garanti Fund Management Co. Ltd.                       | 100.00                           |
| Garanti Bilişim Teknolojisi ve Tic. AŞ                 | 100.00                           |
| Garanti Filo Yönetimi Hizmetleri AŞ                    | 100.00                           |
| Garanti Finansal Kiralama AŞ                           | 98.94                            |
| Garanti Emeklilik ve Hayat AŞ                          | 84.91                            |
| Garanti Faktoring Hizmetleri AŞ                        | 81.84                            |
| Eureko Sigorta AŞ                                      | 20.00                            |
| Garanti Diversified Payment Rights Finance Company (a) | -                                |
| T2 Capital Finance Company (a)                         | -                                |

(a) *Garanti Diversified Payment Rights Finance Company and T2 Capital Finance Company are the special purpose entities established for the Bank's securitization and subordinated debt transactions, respectively, that are explained in Note 17. The Bank or any of its affiliates does not have any shareholding interests in these companies.*

Garanti Kültür AŞ (The legal name of Galata Araştırma Yayıncılık Tanıtım ve Bilişim Teknoloji Hizmetleri AŞ has been changed as Garanti Kültür AŞ at 8 February 2008) is excluded from the consolidation scope as of 31 December 2008 as the company does not have material operations and results.

Garanti Fund Management Co. Ltd. (100.00%) and Garanti Financial Services plc (100.00%) are under liquidation as of the reporting date.

## 26 Net fee and commission income

|                                    | <i>Nine-month period ended</i><br><u>30 September 2009</u> | <i>Three-month period ended</i><br><u>30 September 2009</u> | <i>Nine-month period ended</i><br><u>30 September 2008</u> | <i>Three-month period ended</i><br><u>30 September 2008</u> |
|------------------------------------|--|---|--|---|
| <i>Fee and commission income:</i>  |  |   |  |   |
| Credit cards fees                  | 799,107  | 247,382   | 770,535  | 273,685   |
| Retail banking                     | 313,283  | 116,889   | 257,984  | 88,186  |
| SME banking                        | 182,833  | 64,808  | 150,548  | 51,701  |
| Commercial banking                 | 141,135  | 44,944  | 107,513  | 31,798  |
| Corporate banking                  | 78,690   | 33,233  | 61,922   | 24,456  |
| Others                             | <u>188,117</u>   | <u>61,996</u>   | <u>168,818</u>   | <u>52,785</u>   |
| Total fee and commission income    | <u>1,703,165</u>   | <u>569,252</u>  | <u>1,517,320</u>   | <u>522,611</u>  |
| <i>Fee and commission expense:</i> |  |   |  |   |
| Credit cards fees                  | 211,683  | 67,547  | 236,527  | 85,679  |
| Retail banking                     | 9,562  | 4,696   | 13,058   | 2,696   |
| SME banking                        | 4,639  | 2,241   | 3,726  | 1,282   |
| Commercial banking                 | 1,519  | 727   | 695  | 327   |
| Others                             | <u>105,895</u>   | <u>30,246</u>   | <u>68,036</u>  | <u>33,691</u>   |
| Total fee and commission expense   | <u>333,298</u>   | <u>105,457</u>  | <u>322,042</u>   | <u>123,675</u>  |
| Net fee and commission income      | <u>1,369,867</u>   | <u>463,795</u>  | <u>1,195,278</u>   | <u>398,936</u>  |

## 27 Other operating expenses

|                                    | <i>Nine-month<br/>period ended<br/><u>30 September 2009</u></i> | <i>Three-month<br/>period ended<br/><u>30 September 2009</u></i> | <i>Nine-month<br/>period ended<br/><u>30 September 2008</u></i> | <i>Three-month<br/>period ended<br/><u>30 September 2008</u></i> |
|------------------------------------|---|--|---|--|
| Advertising expenses               | 64,718  | 24,599   | 86,909  | 38,934   |
| EDP expenses                       | 63,078  | 22,181   | 57,591  | 18,420   |
| Saving deposits insurance fund     | 51,538  | 15,844   | 43,357  | 15,100   |
| Utility expenses                   | 45,117  | 16,918   | 32,784  | 12,408   |
| Repair and maintenance expenses    | 21,015  | 7,746  | 19,219  | 8,065  |
| Claim loss from insurance business | 17,807  | 7,351  | 16,328  | 3,798  |
| Research and development expenses  | 15,468  | 5,732  | 14,385  | 7,815  |
| Others                             | <u>200,880</u>  | <u>70,795</u>  | <u>228,726</u>  | <u>58,618</u>  |
|                                    | <u>479,621</u>  | <u>171,166</u>   | <u>499,299</u>  | <u>163,158</u>   |

## 28 Use of estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 24).

### *Key sources of estimation uncertainty*

#### Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy Note 7.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgement about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

## **28 Use of estimates and judgements (continued)**

### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies and Note 22. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### *Critical accounting judgements in applying the Bank's accounting policies*

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

### Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (i) *Financial instruments*.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy (i) *Financial instruments*.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy (h) *Financial instruments*.

### Securitizations

In applying its policies on securitised financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

**29 Subsequent event**

The Bank has acquired one ordinary share that EFG Finansal Kiralama AŞ had in Garanti Bank Moscow, one of the Bank's subsidiaries, representing a 0.0578% ownership in the registered share capital of this bank at a nominal value of Rouble 255,000 on 15 October 2009 for a purchase price of USD 65,000.

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