



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

Consolidated Financial Statements

As at and for the year ended

31 December 2009

With Independent Auditors' Report Thereon

11 February 2010

This report contains the "Independent Auditors' Report" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 76 pages.

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

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## **Independent auditors' report**

To the Board of Directors of  
Türkiye Garanti Bankası Anonim Şirketi

We have audited the accompanying consolidated financial statements of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its affiliates, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

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

### *Auditors' responsibility*

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

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

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

### *Basis for qualified opinion*

As of the reporting date, the accompanying consolidated statement of financial position includes a general provision amounting to TL 360,000 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 330,000 thousands of such provision has been recognized as expense in the current period.



*Qualified opinion*

In our opinion, except for the effect on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank and its affiliates as of 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Ahs Begimsiz Denetim ve SMMM A.Ş.

İstanbul,  
11 February 2010

# Türkiye Garanti Bankası AŞ And Its Affiliates

## Consolidated Statement of Financial Position

### At 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Assets</b>			
Cash and balances with central banks	4	5,579,198	3,972,533
Financial assets at fair value through profit or loss	5	722,753	564,137
Loans and advances to banks	6	10,767,047	8,004,241
Loans and advances to customers	7	54,765,251	53,870,069
Other assets	9	4,826,705	4,203,250
Investment securities	10,21	37,237,584	26,112,129
Investments in equity participations	11	73,356	70,437
Tangible assets, net	12	1,448,658	1,238,627
Goodwill, net	13	33,170	33,170
Deferred tax asset	19	153,915	119,745
<b>Total assets</b>		<b><u>115,607,637</u></b>	<b><u>98,188,338</u></b>
<b>Liabilities</b>			
Deposits from banks	14	2,738,333	2,119,279
Deposits from customers	15	66,043,031	55,837,808
Obligations under repurchase agreements	16	10,764,729	11,153,180
Loans and advances from banks	17	15,578,295	13,443,583
Subordinated liabilities	18	990,443	947,530
Current tax liability	19	225,228	127,684
Deferred tax liability	19	10,850	-
Other liabilities and accrued expenses	20	5,420,447	4,655,769
<b>Total liabilities</b>		<b><u>101,771,356</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	49,098	35,201
Unrealised gains on available-for-sale assets	10,21	1,361,279	177,751
Hedging reserve	21	(2,167)	60,998
Translation reserve	21	34,118	35,987
Legal reserves	21	383,638	289,414
Retained earnings	21	6,852,064	4,145,903
<b>Total shareholders' equity and minority interest</b>		<b><u>13,836,281</u></b>	<b><u>9,903,505</u></b>
<b>Total liabilities, shareholders' equity and minority interest</b>		<b><u>115,607,637</u></b>	<b><u>98,188,338</u></b>
<b>Commitments and contingencies</b>	23		

The notes on pages 5 to 76 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Year Ended 31 December 2009**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
Interest income:-			
Interest on loans		6,321,909	6,076,736
Interest on securities		4,070,136	3,075,808
Interest on deposits at banks		465,845	654,012
Interest on lease business		231,841	235,025
Others		85,099	101,849
		<u>11,174,830</u>	<u>10,143,430</u>
Interest expense:-			
Interest on saving, commercial and public deposits		(4,054,888)	(4,360,305)
Interest on borrowings and obligations under repurchase agreements		(1,532,095)	(2,063,290)
Interest on bank deposits		(87,639)	(171,982)
Interest on subordinated liabilities		(64,799)	(35,327)
Others		(2,258)	(4,469)
		<u>(5,741,679)</u>	<u>(6,635,373)</u>
<b>Net interest income</b>		<b>5,433,151</b>	<b>3,508,057</b>
Fee and commission income		2,164,421	1,965,424
Fee and commission expense		(438,764)	(464,435)
<b>Net fee and commission income</b>	26	<b>1,725,657</b>	<b>1,500,989</b>
Trading gains, net	5	726,557	488,102
Foreign exchange gains, net		167,095	-
Premium income from insurance business		156,024	135,892
Other operating income		224,731	135,306
<b>Other operating income</b>		<b>1,274,407</b>	<b>759,300</b>
<b>Total operating income</b>		<b>8,433,215</b>	<b>5,768,346</b>
Impairment losses, net	7,8,9,11,12,13,20	(1,643,535)	(490,026)
Salaries and wages		(981,766)	(946,820)
Credit card rewards and promotion expenses		(299,110)	(289,013)
Employee benefits	20	(255,571)	(239,939)
Depreciation and amortization	12	(196,018)	(183,273)
Communication expenses		(140,232)	(144,378)
Rent expenses		(128,086)	(111,247)
Taxes and duties other than on income		(125,689)	(77,863)
Foreign exchange loss, net	12	-	(233,581)
Other operating expenses	27	(733,515)	(693,414)
<b>Total operating expenses</b>		<b>(4,503,522)</b>	<b>(3,409,554)</b>
<b>Income before tax</b>		<b>3,929,693</b>	<b>2,358,792</b>
Taxation charge	19	(835,032)	(432,777)
<b>Net income for the year</b>		<b>3,094,661</b>	<b>1,926,015</b>
<b>Other comprehensive income:</b>			
Foreign currency translation differences for foreign operations	21	(1,754)	94,421
Net gain/(losses) on hedges of net investments in foreign operations	21	-	(64,240)
Cash flow hedges:			
Effective portion of changes in fair value	21	17,481	65,536
Net amount transferred to income	21	(80,646)	(36,002)
Fair value reserves (available-for-sale financial assets):			
Net change in fair values	21	1,293,280	49,631
Net amount transferred to income	21	(109,738)	(61,271)
<b>Other comprehensive income for the year, net of tax</b>		<b>1,118,623</b>	<b>48,075</b>
<b>Total comprehensive income for the year</b>		<b>4,213,284</b>	<b>1,974,090</b>
<b>Net income attributable to:</b>			
Equity holders of the Bank		3,080,719	1,914,215
Minority interest		13,942	11,800
		<u>3,094,661</u>	<u>1,926,015</u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the Bank		4,199,327	1,962,299
Minority interest		13,956	11,791
		<u>4,213,284</u>	<u>1,974,090</u>
<b>Weighted average number of shares with a face value of Kr 1 each</b>	21	<b>420 billions</b>	<b>297.5 billions</b>
<b>Basic and diluted earnings per share (full TL amount per TL'000 face value each)</b>		<b>733.5</b>	<b>643.4</b>

The notes on pages 5 to 76 are integral part of these consolidated financial statements.

## Türkiye Garanti Bankası AŞ And Its Affiliates

### Consolidated Statement of Changes in Shareholders' Equity For The Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

	Notes	Share Capital	Share Premium	Minority Interest	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Total Shareholders' Equity and Minority Interest
<b>Balances at 31 December 2007</b>		<b>3,046,371</b>	<b>-</b>	<b>23,410</b>	<b>189,382</b>	<b>31,464</b>	<b>6,709</b>	<b>172,678</b>	<b>3,781,754</b>	<b>7,251,768</b>
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	21	-	-	-	-	-	-	115,833	(115,833)	-
Foreign exchange difference on foreign currency legal reserves		-	-	-	-	-	-	903	-	903
Net unrealised market value gains from available-for-sale portfolio	21	-	-	(9)	49,640	-	-	-	-	49,631
Net gains on available-for-sale assets transferred to the income statement on disposal	21	-	-	-	(61,271)	-	-	-	-	(61,271)
Foreign currency translation differences for foreign operations	21	-	-	-	-	-	29,278	-	-	29,278
Net fair value gains from cash flow hedges	21	-	-	-	-	65,536	-	-	-	65,536
Net fair value gains from cash flow hedges transferred to the income statement on disposal	21	-	-	-	-	(36,002)	-	-	-	(36,002)
Net income for the year		-	-	11,800	-	-	-	-	1,914,215	1,926,015
<b>Balances at 31 December 2008</b>		<b>5,146,371</b>	<b>11,880</b>	<b>35,201</b>	<b>177,751</b>	<b>60,998</b>	<b>35,987</b>	<b>289,414</b>	<b>4,145,903</b>	<b>9,903,505</b>
Dividends paid		-	-	-	-	-	-	-	(275,000)	(275,000)
Foreign exchange difference on foreign currency legal reserves	21	-	-	-	-	-	-	115	-	115
Transfer to legal reserves		-	-	-	-	-	-	94,109	(94,109)	-
Net unrealised market value gains from available-for-sale portfolio	21	-	-	14	1,293,266	-	-	-	-	1,293,280
Net gains on available-for-sale assets transferred to the income statement on disposal	21	-	-	-	(109,738)	-	-	-	-	(109,738)
Foreign currency translation differences for foreign operations		-	-	-	-	-	(1,869)	-	-	(1,869)
Net fair value gains from cash flow hedges	21	-	-	-	-	17,481	-	-	-	17,481
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 year		-	-	13,942	-	-	-	-	3,080,719	3,094,661
<b>Balances at 31 December 2009</b>		<b>5,146,371</b>	<b>11,880</b>	<b>49,098</b>	<b>1,361,279</b>	<b>(2,167)</b>	<b>34,118</b>	<b>383,638</b>	<b>6,852,064</b>	<b>13,836,281</b>

# Türkiye Garanti Bankası AŞ And Its Affiliates

## Consolidated Statement of Cash Flows For The Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>31 December 2009</u>	<u>31 December 2008</u>
<b>Cash flows from operating activities:-</b>			
Interests and commissions received		8,842,185	8,059,748
Interest expenses paid		(5,965,971)	(6,317,557)
Other operating activities, net		1,039,667	97,997
Cash payments to employees and suppliers		<u>(2,661,807)</u>	<u>(2,479,107)</u>
		1,254,074	(638,919)
<b>(Increase)/decrease in operating assets:-</b>			
Loans and advances to banks		(2,195,704)	(1,042,269)
Balances with central banks		(361,491)	3,144,079
Financial assets at fair value through profit or loss		(155,266)	430,777
Loans and advances to customers		(1,145,748)	(9,861,594)
Consumer loans		(813,530)	(2,794,787)
Other assets		(493,424)	(529,022)
<b>Increase/(decrease) in operating liabilities:-</b>			
Deposits from banks		625,027	(311,608)
Deposits from customers		10,332,995	14,451,954
Obligations under repurchase agreements		(386,146)	2,570,701
Other liabilities		745,203	274,412
<b>Net cash flow from operating activities before income taxes paid</b>		<b><u>7,405,990</u></b>	<b><u>5,693,724</u></b>
<b>Income taxes paid</b>	19	<b>(1,120,360)</b>	<b>(592,853)</b>
<b>Tax refunds collected</b>		<b>-</b>	<b>137,256</b>
<b>Net cash flow from operating activities</b>		<b><u>6,285,630</u></b>	<b><u>5,238,127</u></b>
<b>Cash flows from investing activities:-</b>			
Net increase in security investments		(8,421,881)	(7,123,650)
Interest received		2,616,767	2,033,568
Increase in investments in equity participations, net		(2,562)	-
Dividends received		2,762	29,487
Proceeds from sale of tangible assets		45,509	166,529
Purchase of tangible assets		(492,453)	(394,925)
<b>Net cash flow used in investing activities</b>		<b><u>(6,251,858)</u></b>	<b><u>(5,288,991)</u></b>
<b>Cash flows from financing activities:-</b>			
Increase in loans and advances from banks, net		2,180,204	2,458,968
Increase in subordinated liabilities, net		42,273	-
Dividends paid		(275,000)	-
Equity instruments issued		-	2,111,880
Payment for founder shares repurchased		-	(1,434,233)
<b>Net cash flow from financing activities</b>		<b><u>1,947,477</u></b>	<b><u>3,136,615</u></b>
<b>Effect of exchange rate changes</b>		<b>167,095</b>	<b>(233,581)</b>
<b>Net increase in cash and cash equivalents</b>		<b><u>2,148,344</u></b>	<b><u>2,852,170</u></b>
Cash and cash equivalents at the beginning of the year		<u>7,145,989</u>	<u>4,293,819</u>
<b>Cash and cash equivalents at the end of the year</b>	2	<b><u><u>9,294,333</u></u></b>	<b><u><u>7,145,989</u></u></b>

The notes on pages 5 to 76 are an integral part of these consolidated financial statements.



## **Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

### **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 year ended 31 December 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 663 domestic branches, five foreign branches, four representative offices abroad and 120 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 18,875 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 11 February 2010.

#### **(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.

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

**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.

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

Unrealized gains arising from transactions with associates and jointly controlled entities are 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 year.

#### *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. For the assets acquired after 1 January 2009, the straight-line depreciation method is in use.

The estimated useful lives and depreciation rates are as follows:

<i>Tangible assets</i>	<i>Estimated useful lives (years)</i>	<i>Depreciation Rates (%) from 1 January 2009</i>	<i>Depreciation Rates (%) from 1 January 2005</i>	<i>Depreciation Rates (%) before 1 January 2005</i>
Buildings	50	2	4	2
Vaults	20-50	2-20	4-40	2-20
Motor vehicles	5-7	15-20	30-40	15-20
Other tangible assets	4-20	5-25	10-50	5-25

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.

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**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.

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**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 income result, the effective portion of changes in the fair value of the derivative are recognised directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognised in the statement of comprehensive income is removed and included in income in the same period as the hedged cash flows affect the 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 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 other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the other comprehensive income is recognized immediately in 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 statement of comprehensive income, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in income. The amount recognized in the statement of comprehensive income is removed and included in 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).



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**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:

	<i>2009</i>	
	<i>Employer</i>	<i>Employee</i>
	<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 2009 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 10.86% - 8.42% as of 31 December 2009.

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**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 and non-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.

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**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.

*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.

*Mathematical provisions:* Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance affiliate and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance affiliate from the eligible surplus available to date.

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**Significant accounting policies (continued)**

Mathematical provisions are presented under “other liabilities and accrued expenses” in the accompanying consolidated financial statements.

**(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.

**(u) *Segment reporting***

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank’s other components. All operating segments’ operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(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.

IFRS 9 is the first standard issued as part of a wider project to replace IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply. The amendment is effective for annual periods beginning on or after 1 January 2013, although entities are permitted to adopt them earlier. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. The Bank is currently in the process of evaluating the potential effect of this amendment.

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

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Bank's operations: a) The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations. b) Contingent consideration will be measured at fair value, with subsequent changes therein recognised in income. c) Transaction costs, other than share and debt issue costs, will be expensed as incurred. d) Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in income. e) Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis. Revised IFRS 3, which becomes mandatory for the 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods of the Bank's 2010 consolidated financial statements.

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**1 Segment reporting**

The Bank has six reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

**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:

	<b>2009</b>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditure</i>
Turkey	51,880,199	100,630,379	71,542,341	12,758,455	328,473
England	32,411	5,827,063	10,158,275	272,488	-
Romania	1,099,938	2,557,144	1,577,550	71,855	7,499
Germany	9,782	1,588,804	3,274,002	81,613	779
Holland	480,134	1,157,041	2,018,594	155,797	3,770
Russia	480,084	978,600	269,657	67,802	29,332
USA	43,721	843,864	7,445,208	441,186	-
France	3,996	11,005	440,972	167,110	-
Others	734,986	2,013,737	5,044,757	1,096,899	-
	<u>54,765,251</u>	<u>115,607,637</u>	<u>101,771,356</u>	<u>15,113,205</u>	<u>369,853</u>

	<b>2008</b>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital 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:

	<b>2009</b>	<b>2008</b>
Turkey	2,867,792	1,763,835
Malta	153,478	72,141
Holland	43,829	55,084
Luxembourg	5,990	3,082
Others	23,572	31,873
	<u>3,094,661</u>	<u>1,926,015</u>

## 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>31 December 2009</i>	<i>Retail Banking</i>	<i>Commercial, Corporate &amp; SME Banking</i>	<i>Other Operations</i>	<i>Eliminations</i>	<i>Total Banking</i>	<i>Leasing</i>	<i>Insurance</i>	<i>Factoring</i>	<i>Other Financial</i>	<i>Other Non- Financial</i>	<i>Combined</i>	<i>Eliminations</i>	<i>Total</i>
Operating income	2,523,947	2,526,682	2,968,142	-	8,018,771	145,351	180,744	36,180	40,886	31,660	8,453,592	(20,377)	8,433,215
Operating expenses	(1,249,032)	(826,071)	(2,167,402)	-	(4,242,505)	(109,128)	(85,205)	(23,441)	(38,153)	(27,432)	(4,525,864)	22,342	(4,503,522)
<b>Income from operations</b>	<b>1,274,915</b>	<b>1,700,611</b>	<b>800,740</b>	<b>-</b>	<b>3,776,266</b>	<b>36,223</b>	<b>95,539</b>	<b>12,739</b>	<b>2,733</b>	<b>4,228</b>	<b>3,927,728</b>	<b>1,965</b>	<b>3,929,693</b>
Taxation charge	-	-	(834,083)	-	(834,083)	22,996	(19,364)	(2,729)	(1,018)	(834)	(835,032)	-	(835,032)
<b>Net income for the period</b>	<b>1,274,915</b>	<b>1,700,611</b>	<b>(33,343)</b>	<b>-</b>	<b>2,942,183</b>	<b>59,219</b>	<b>76,175</b>	<b>10,010</b>	<b>1,715</b>	<b>3,394</b>	<b>3,092,696</b>	<b>1,965</b>	<b>3,094,661</b>
Segment assets	17,444,234	36,659,646	56,283,265	(627,007)	109,760,138	1,824,602	1,729,222	1,131,854	52,485	17,915	114,516,216	(617,678)	113,898,538
Investments in equity participations	-	-	386,592	-	386,592	-	275	9,641	5,765	1,158	403,431	(330,075)	73,356
Unallocated assets	-	-	1,383,826	-	1,383,826	180,396	15,266	4,261	4,967	1,511	1,590,227	45,516	1,635,743
<b>Total assets</b>	<b>17,444,234</b>	<b>36,659,646</b>	<b>58,053,683</b>	<b>(627,007)</b>	<b>111,530,556</b>	<b>2,004,998</b>	<b>1,744,763</b>	<b>1,145,756</b>	<b>63,217</b>	<b>20,584</b>	<b>116,509,874</b>	<b>(902,237)</b>	<b>115,607,637</b>
Segment liabilities	38,259,084	27,189,182	33,237,052	(627,007)	98,058,311	1,665,647	1,511,621	1,088,955	13,172	7,306	102,345,012	(573,656)	101,771,356
Shareholders' equity and minority interest	-	-	13,472,245	-	13,472,245	339,351	233,142	56,801	50,045	13,278	14,164,862	(328,581)	13,836,281
<b>Total liabilities, shareholders' equity and minority interest</b>	<b>38,259,084</b>	<b>27,189,182</b>	<b>46,709,297</b>	<b>(627,007)</b>	<b>111,530,556</b>	<b>2,004,998</b>	<b>1,744,763</b>	<b>1,145,756</b>	<b>63,217</b>	<b>20,584</b>	<b>116,509,874</b>	<b>(902,237)</b>	<b>115,607,637</b>

**Türkiye Garanti Bankası AŞ and Its Affiliates**  
Notes to Consolidated Financial Statements  
As of and for the Year Ended 31 December 2009  
(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<i>Retail Banking</i>	<i>Commercial Corporate &amp; SME Banking</i>	<i>Other Operations</i>	<i>Eliminations</i>	<i>Total Banking</i>	<i>Leasing</i>	<i>Insurance</i>	<i>Factoring</i>	<i>Other Financial</i>	<i>Other Non- Financial</i>	<i>Combined</i>	<i>Eliminations</i>	<i>Total</i>
<b><i>31 December 2008</i></b>													
Operating income	2,107,329	1,746,256	1,565,378	-	5,418,963	101,532	164,773	25,108	34,867	29,306	5,774,549	(6,203)	5,768,346
Operating expenses	(1,021,287)	(549,683)	(1,632,655)	-	(3,203,625)	(27,191)	(83,990)	(16,395)	(34,068)	(26,572)	(3,391,841)	(17,713)	(3,409,554)
<b>Income from operations</b>	<b>1,086,042</b>	<b>1,196,573</b>	<b>(67,277)</b>	<b>-</b>	<b>2,215,338</b>	<b>74,341</b>	<b>80,783</b>	<b>8,713</b>	<b>799</b>	<b>2,734</b>	<b>2,382,708</b>	<b>(23,916)</b>	<b>2,358,792</b>
Taxation credit/(charge)	-	-	(413,899)	-	(413,899)	16	(16,218)	(1,729)	(448)	(649)	(432,927)	150	(432,777)
<b>Net income for the period</b>	<b>1,086,042</b>	<b>1,196,573</b>	<b>(481,176)</b>	<b>-</b>	<b>1,801,439</b>	<b>74,357</b>	<b>64,565</b>	<b>6,984</b>	<b>351</b>	<b>2,085</b>	<b>1,949,781</b>	<b>(23,766)</b>	<b>1,926,015</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 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 31 December 2009 and 2008, included in the accompanying consolidated statements of cash flows are as follows:

	<u>2009</u>	<u>2008</u>
Cash at branches	797,599	672,358
Unrestricted balances with central banks	4,781,599	3,300,175
Placements at money markets	1,000,000	-
Loans and advances to banks with original maturity periods of less than three months	2,715,135	3,173,456
	<u>9,294,333</u>	<u>7,145,989</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

	<u>2009</u>	<u>2008</u>
<i>Statement of financial position</i>		
Loans and advances to customers	312,884	289,145
<i>Loans granted in TL</i>	157,424	79,385
<i>Loans granted in foreign currencies:</i>	US\$ 53,645,220	US\$ 54,605,072
	EUR 35,323,461	EUR 59,911,300
Miscellaneous receivables	5,515	7,868
Deposits received	722,092	500,934
<i>Commitments and contingencies</i>		
Non-cash loans	375,551	188,864
Derivatives	3,326	-

### 3.2 Transactions

	<u>2009</u>	<u>2008</u>
Interest income	24,257	13,339
Interest expense	27,631	46,866

In 2009, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 2.2%-8.0% and 0.1%-10.1% (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 1.1%-19.0% and 5.9%-10.5%, respectively (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 31 December 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 year ended 31 December 2009 amounted TL 89,724 thousands (2008: TL 90,924 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 59,001 thousands (2008: TL 58,742 thousands) and of its financial affiliates amounted TL 30,723 thousands (2008: TL 32,182 thousands).

### 4 Cash and balances with central banks

	<u>2009</u>	<u>2008</u>
Cash at branches	797,599	672,358
Balances with central banks excluding reserve deposits	<u>4,781,599</u>	<u>3,300,175</u>
	<u>5,579,198</u>	<u>3,972,533</u>

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

	<u>2009</u>				<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	345,568	329,040	7-9	2011	3,633
Gold	-	109,827	-	-	24,967
Government bonds in TL	61,565	60,832	8-17	2014	123,221
Investment fund	-	23,286	-	-	22,123
Others		<u>44,836</u>			<u>34,589</u>
		567,821			208,533
<i>Equity and other non-fixed income instruments:</i>					
Forfeiting receivables		154,910			355,590
Listed shares		<u>22</u>			<u>14</u>
		<u>154,932</u>			<u>355,604</u>
Total financial assets at fair value through profit or loss		<u>722,753</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 effective portion of 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:

	<u>2009</u>	<u>2008</u>
Fixed/floating securities	416,966	61,176
Derivative transactions	<u>309,591</u>	<u>426,926</u>
Trading gains, net	<u>726,557</u>	<u>488,102</u>

As at 31 December 2009, financial assets at fair value through profit or loss amounting to TL 89 thousands are blocked against asset management operation (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

	<u>2009</u>			<u>2008</u>		
	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>
<i>Loans and advances-demand</i>						
Domestic banks	430	5,185	5,615	436	2,428	2,864
Foreign banks	<u>255,099</u>	<u>593,476</u>	<u>848,575</u>	<u>369,998</u>	<u>605,628</u>	<u>975,626</u>
	<u>255,529</u>	<u>598,661</u>	<u>854,190</u>	<u>370,434</u>	<u>608,056</u>	<u>978,490</u>
<i>Loans and advances-time</i>						
Domestic banks	660,312	1,419,680	2,079,992	366,047	1,567,270	1,933,317
Foreign banks	<u>2,226,818</u>	<u>4,537,710</u>	<u>6,764,528</u>	<u>975,661</u>	<u>4,009,012</u>	<u>4,984,673</u>
	<u>2,887,130</u>	<u>5,957,390</u>	<u>8,844,520</u>	<u>1,341,708</u>	<u>5,576,282</u>	<u>6,917,990</u>
Placements at money markets	<u>1,000,000</u>	-	<u>1,000,000</u>	<u>40,552</u>	-	<u>40,552</u>
Accrued interest on loans and advances to banks	<u>37,648</u>	<u>30,689</u>	<u>68,337</u>	<u>35,690</u>	<u>31,519</u>	<u>67,209</u>
Total loans and advances to banks	4,180,307	6,586,740	10,767,047	1,788,384	6,215,857	8,004,241
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	<u>4,180,307</u>	<u>6,586,740</u>	<u>10,767,047</u>	<u>1,788,384</u>	<u>6,215,857</u>	<u>8,004,241</u>

As at 31 December 2009, majority of loans and advances-time are short-term with interest rates ranging between 0%-12% per annum for foreign currency time placements and 5%-26% per annum for TL time placements (2008: 1%-11% and 15%-23%, respectively).

As at 31 December 2009, loans and advances at domestic and foreign banks include blocked accounts of TL 4,759,245 thousands (2008: TL 1,939,349 thousands) held against securitizations, fundings 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:

	<u>2009</u>	<u>2008</u>
Consumer loans	17,046,507	16,232,977
<i>Credit card receivables</i>	6,841,994	6,717,695
<i>Mortgage loans</i>	5,696,686	5,024,875
<i>General purpose loans</i>	2,990,758	2,907,668
<i>Auto loans</i>	598,783	839,399
<i>Other consumer loans</i>	918,286	743,340
Service sector	5,234,700	4,581,154
Energy	4,049,434	3,593,525
Transportation and logistics	2,788,779	2,831,671
Construction	2,567,201	2,745,348
Food	2,426,405	1,881,166
Transportation vehicles and sub-industry	2,137,002	2,331,475
Metal and metal products	2,109,944	1,742,065
Textile	1,915,975	2,067,422
Tourism	1,547,999	1,418,581
Data processing	1,253,193	1,199,499
Financial institutions	1,213,505	2,019,792
Durable consumption	776,561	958,250
Agriculture and stockbreeding	755,343	712,537
Chemistry and chemical product	707,058	785,910
Machinery and equipments	688,978	632,454
Stone, rock and related products	647,714	645,265
Electronic, optical and medical equipment	564,172	545,395
Mining	397,421	397,882
Plastic products	291,375	326,161
Paper and paper products	264,700	288,016
Others	<u>2,122,635</u>	<u>1,950,975</u>
Total performing loans	51,506,601	49,887,520
Financial lease receivables, net of unearned income (Note 8)	1,369,908	1,997,066
Factoring receivables	848,028	651,799
Accrued interest income on loans and lease receivables	795,555	1,146,004
Non-performing loans, factoring and lease receivables	2,533,818	1,368,312
Allowance for possible losses from loans, factoring and lease receivables	<u>(2,288,659)</u>	<u>(1,180,632)</u>
Loans and advances to customers	<u>54,765,251</u>	<u>53,870,069</u>

As at 31 December 2009, interest rates on loans granted to customers range between 1%-24% (2008: 2%-30%) per annum for the foreign currency loans and 7%-32% (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 341,038 thousands (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:

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	1,180,632	785,855
Write-offs	(137,320)	(131,900)
Recoveries and reversals	(592,619)	(36,873)
Provision for the year	<u>1,837,966</u>	<u>563,550</u>
Balance at the end of the year	<u>2,288,659</u>	<u>1,180,632</u>

Movements in the portfolio basis allowance are as follows:

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	196,351	153,805
Net change in provision for the year	<u>144,687</u>	<u>42,546</u>
Balance at the end of the year	<u>341,038</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:

	<u>2009</u>	<u>2008</u>
Financial lease receivables, net of unearned income (Note 7)	1,369,908	1,997,066
Add: non-performing lease receivables	224,619	101,577
Less: allowance for possible losses on lease receivable	<u>(65,883)</u>	<u>(15,117)</u>
	<u>1,528,644</u>	<u>2,083,526</u>
Accrued interest on lease receivables	<u>12,605</u>	<u>20,471</u>

### *Analysis of net financial lease receivables*

Due within 1 year	778,479	1,077,648
Due between 1 and 5 years	943,917	1,270,738
Due after 5 years	<u>50,337</u>	<u>60,329</u>
Financial lease receivables, gross	1,772,733	2,408,715
Unearned income	<u>(244,089)</u>	<u>(325,189)</u>
Financial lease receivables, net	<u>1,528,644</u>	<u>2,083,526</u>

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

Due within 1 year	651,506	907,223
Due between 1 and 5 years	830,101	1,121,576
Due after 5 years	<u>47,037</u>	<u>54,727</u>
Financial lease receivables, net	<u>1,528,644</u>	<u>2,083,526</u>



## 9 Other assets

	<u>2009</u>	<u>2008</u>
Reserve deposits at central banks	2,099,002	1,773,311
Insurance premium receivables	1,393,340	935,860
Accrued exchange gain on derivatives	642,462	812,397
Prepaid expenses, insurance claims and similar items	238,225	286,832
Advances for tangible assets	128,949	81,008
Miscellaneous receivables	120,252	95,801
Tangible assets held for sale	81,192	81,346
Prepaid taxes and taxes and funds to be refunded	52,268	52,106
Others	<u>71,015</u>	<u>84,589</u>
	<u>4,826,705</u>	<u>4,203,250</u>

### *Reserve deposits at central banks*

At 31 December 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 5% and 9% (2008: 6% and 9%), respectively. Interest rates applied for reserve requirements are 5.20% (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 25% for foreign currency denominated liabilities with an remaining maturity less than 2 years excluding Romanian banks' fundings (previously, 18% for RON and 30% for foreign currency). The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, presently there are 3.36% for RON reserves, 1.26% 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% (2008: banks-nonresident (RUR and foreign currency liabilities) 0.5%, individuals (RUR) 0.5%, other liabilities (RUR and foreign currency liabilities) 0.5%).

### *Tangible assets held for sale*

TL 81,192 thousands (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 estates held for

## 9 Other assets (continued)

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 31 December 2009, real estates held for sale amounting TL 75,889 thousands (2008: TL 78,214 thousands) have been impaired by TL 9,879 thousands (2008: TL 4,739 thousands).

As of 31 December 2009, the rights of repurchase on various tangible assets held for sale amounted to TL 3,263 thousands (2008: TL 13,714 thousands).

## 10 Investment securities

	2009				2008
	<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 available-for-sale:</i>					
Government bonds at floating rates	9,191,323	9,804,229	10-12	2016	7,269,810
Government bonds indexed to consumer price index	4,840,872	6,420,939	7-12	2014	147,118
Government bonds in TL	4,378,525	4,509,545	8-17	2014	2,602,072
Discounted government bonds in TL	4,633,836	4,389,575	7-9	2011	4,683,672
Bonds issued by corporations (a)	2,150,810	2,154,349	2-20	2034	2,022,743
Eurobonds	852,936	993,710	5-12	2038	683,634
Bonds issued by financial institutions	734,389	777,601	3-18	2019	422,811
Bonds issued by foreign governments	329,346	328,904	4-11	2015	2,277
Government bonds in foreign currency	277,613	280,855	1-6	2010	409,824
Others		<u>110,052</u>			<u>83,786</u>
Total securities available-for-sale		<u>29,769,759</u>			<u>18,327,747</u>
<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)	2,578,816	2,682,252	10-12	2014	2,732,620
Eurobonds	1,403,200	1,417,196	7-12	2036	1,646,169
Others		<u>38,517</u>			<u>39,760</u>
		<u>7,194,120</u>			<u>7,483,768</u>
Accrued interest on held-to-maturity portfolio		<u>273,705</u>			<u>300,614</u>
Total securities held-to-maturity		<u>7,467,825</u>			<u>7,784,382</u>
Total investment securities		<u>37,237,584</u>			<u>26,112,129</u>

(a) Bonds issued by corporations include credit linked notes with a total face value of US\$ 882,777,778 and EUR 500,000 (2008: US\$ 895,500,000 and EUR 1,175,000) and a total carrying value of TL 1,335,731 thousands (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 statement of comprehensive income and amortized to income throughout their maturities. As of the date of the statement of financial position, the negative valuation differences under the statement of comprehensive income are TL 70,661 thousands and US\$ 6,831,700.

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 effective portion of 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 31 December 2009 amounted to TL 2,939 (2008: TL 87 thousands).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 11,039,298 thousands (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>2009</u>		<u>2008</u>	
	<i>Face Value</i>	<i>Carrying value</i>	<i>Face Value</i>	<i>Carrying value</i>
Collateralized to foreign banks	9,332,350	9,707,648	7,108,446	7,242,244
Deposited at Istanbul Stock Exchange	2,390,302	2,794,851	5,745,673	5,907,317
Deposited at central banks for repurchase transactions	1,374,103	1,473,013	1,541,280	1,606,177
Deposited at CBT for interbank transactions	570,773	598,305	598,920	629,992
Deposited at CBT for foreign currency money market transactions	1,007,203	1,082,479	581,980	584,095
Deposited at Clearing Bank (Takasbank)	53,651	56,370	10,000	10,087
Others		49,441		138,831
		<u>15,762,107</u>		<u>16,118,743</u>

## 11 Investments in equity participations

	<u>2009</u>		<u>2008</u>	
	<i>Carrying Value</i>	<i>Ownership %</i>	<i>Carrying Value</i>	<i>Ownership %</i>
Eureko Sigorta AŞ	50,579	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>10,815</u>		<u>8,133</u>	
	<u>73,356</u>		<u>70,437</u>	

## 11 Investments in equity participations (continued)

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank were sold to Eureko BV on 21 June 2007. After the sale, the remaining 20% was 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 was as Eureko Sigorta AŞ. For the year ended 31 December 2009, the investment in Eureko Sigorta AŞ amounts to TL 50,579 thousands (2008: TL 40,342 thousands) and the Bank's share of net income is TL 9,221 thousands (2008: TL 10,657 thousands). A summary financial information for equity accounted investee, not adjusted for the percentage ownership held by is presented below:

	<i>Total Assets</i>	<i>Shareholders' Equity</i>	<i>Tangible &amp; Intangible Assets</i>	<i>Interest Income</i>	<i>Income on Securities Portfolio</i>	<i>Current Period Net Income</i>
<b>2009</b>	563,506	252,898	13,691	16,724	24,364	46,609
<b>2008</b>	491,110	201,711	20,811	29,495	7,919	59,947

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.

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 31 December 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 31 December 2009 and 31 December 2008. The cumulative provisions for such impairment losses amounted to TL 3,489 thousands as of 31 December 2009 (2008: TL 3,582 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 31 December 2009 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals</u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,086,460	70,687	-	(18,372)	1,138,775
Furniture, fixture, equipments and motor vehicles	1,037,027	276,424	(2,463)	(37,749)	1,273,239
Leasehold improvements	<u>297,495</u>	<u>58,897</u>	<u>347</u>	<u>(20,332)</u>	<u>336,407</u>
	2,420,982	406,008	(2,116)	(76,453)	2,748,421
<i>Less: Accumulated depreciation</i>					
Buildings	228,852	23,465	-	(4,087)	248,230
Furniture, fixture, equipments and motor vehicles	725,990	142,046	(2,463)	(11,515)	854,058
Leasehold improvements	<u>122,493</u>	<u>48,184</u>	<u>347</u>	<u>(17,972)</u>	<u>153,052</u>
	1,077,335	213,695	(2,116)	(33,574)	1,255,340
<i>Construction in progress</i>	<u>1,919</u>	53,267	12	(1,011)	<u>54,187</u>
	1,345,566				1,547,268
<i>Impairment in value of tangible assets</i>	<u>(106,939)</u>				<u>(98,610)</u>
	<u>1,238,627</u>				<u>1,448,658</u>

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

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</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 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 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 during the year 2009 represented the tangible assets of a newly consolidated affiliate.

Depreciation expense for the year ended 31 December 2009 amounts to TL 196,018 thousands (2008: TL 183,273 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 31 December 2009, land and buildings at a total net book value before impairment of TL 416,724 thousands (2008: TL 394,800 thousands) have been impaired by TL 98,610 thousands (2008: TL 106,939 thousands).

## 13 Goodwill

As of 31 December 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 Eureko 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:

	<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
Eureko 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:

	<u>2009</u>	<u>2008</u>
Payable on demand	1,589,110	942,099
Term deposits	<u>1,146,073</u>	<u>1,168,062</u>
	2,735,183	2,110,161
Accrued interest on deposits from banks	<u>3,150</u>	<u>9,118</u>
	<u>2,738,333</u>	<u>2,119,279</u>

Deposits from banks include both TL accounts amounting TL 853,093 thousands (2008: TL 548,049 thousands) and foreign currency accounts amounting TL 1,882,090 thousands (2008: TL 1,562,112 thousands) in total. As at 31 December 2009, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 3%-16% and 0%-8% (2008: 13%-22% and 1%-8%), respectively.

## 15 Deposits from customers

Deposits from customers comprise the following:

	<u>2009</u>			<u>2008</u>
	<u>Demand</u>	<u>Time</u>	<u>Total</u>	<u>Total</u>
Foreign currency	7,581,871	22,615,292	30,197,163	27,023,909
Saving	1,833,729	19,010,958	20,844,687	18,225,454
Commercial	2,280,338	11,394,405	13,674,743	8,588,692
Public and other	<u>880,748</u>	<u>199,709</u>	<u>1,080,457</u>	<u>1,626,000</u>
	12,576,686	53,220,364	65,797,050	55,464,055
Accrued interest expense on deposits from customers	<u>128</u>	<u>245,853</u>	<u>245,981</u>	<u>373,753</u>
	<u>12,576,814</u>	<u>53,466,217</u>	<u>66,043,031</u>	<u>55,837,808</u>

As at 31 December 2009, interest rates applicable to TL deposits and foreign currency deposits vary within ranges of 3%-18% and 0%-11% (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:

	<u>Carrying value</u>	<u>Fair value of underlying assets</u>	<u>Carrying amount of corresponding liabilities</u>	<u>Range of repurchase dates</u>	<u>Repurchase price</u>
<u>2009</u>					
Investment securities	<u>11,039,298</u>	<u>11,248,892</u>	<u>10,764,729</u>	Jan'10-Feb'11	<u>10,898,956</u>
<u>2008</u>					
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 59,168 thousands (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 31 December 2009, the maturities of the obligations varied from one day to fourteen months and interest rates varied between 2%-11% (2008: 3%-17%).

**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

**17 Loans and advances from banks**

Loans and advances from banks comprise the following:

	<u>2009</u>	<u>2008</u>
<u>Short-term borrowings</u>		
Domestic banks	1,166,712	948,325
Foreign banks	<u>2,926,344</u>	<u>2,780,061</u>
	4,093,056	3,728,386
<u>Long-term debts</u>		
Short-term portion	1,688,654	2,884,807
Medium and long-term portion	<u>9,553,373</u>	<u>6,541,686</u>
	11,242,027	9,426,493
Accrued interest on loans and advances from banks	<u>243,212</u>	<u>288,704</u>
	<u>15,578,295</u>	<u>13,443,583</u>

As at 31 December 2009, loans and advances from banks included various promissory notes amounting to TL 185,273 thousands in total with latest maturity by 2010 (2008: TL 953,176 thousands with latest maturity by 2009).

As at 31 December 2009, short-term borrowings included two one-year-syndicated-loan facilities to finance export contracts in two tranches of (i) US\$ 151,600,000 and EUR 365,600,000 with the rates of Libor + 2.0% and Euribor + 2.0% per annum with the participation of 35 banks from 15 different countries (equivalent of TL 1,007,610 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 1,269,979 thousands).

Long-term debts comprise the following:

	<u>2009</u>			<u>2008</u>		
	<u>Interest rate%</u>	<u>Latest Maturity</u>	<u>Amount in original currency</u>	<u>Short term portion</u>	<u>Medium and long term portion</u>	<u>Medium and long term debts</u>
Deutsche Bank AG	11-13	2017	TL 701 mio	-	701,210	701,210
DPR Securitisation-IV	0.5-1	2013	US\$ 446 mio	190,274	474,448	678,194
DPR Securitisation-V <sup>(*)</sup>	0.5-1	2013	US\$ 395 mio	161,137	427,761	600,808
DPR Securitisation-VII	1	2016	US\$ 376 mio	35,678	524,172	571,420
DPR Securitisation-VIII	0.5	2017	US\$ 350 mio	-	521,155	531,609
DPR Securitisation-IX	2	2018	EUR 200 mio	25,658	401,982	423,160
DPR Securitisation-VI	1	2011	EUR 162 mio	230,999	115,545	407,259
DPR Securitisation-VI	0.5	2016	US\$ 225 mio	20,783	313,982	318,583
DPR Securitisation-VI	1	2013	US\$ 210 mio	-	312,416	341,450
DPR Securitisation-III	0.5	2013	US\$ 192 mio	81,759	204,441	291,989
DPR Securitisation-VIII	0.5	2017	US\$ 100 mio	-	148,901	151,888
DPR Securitisation-VIII	0.5	2017	US\$ 100 mio	-	148,901	151,888
DPR Securitisation-VII	1	2014	US\$ 83 mio	24,818	99,251	126,302
DPR Securitisation-VIII	1	2015	US\$ 46 mio	12,410	55,832	72,784
Others				<u>905,138</u>	<u>5,103,376</u>	<u>1,173,142</u>
				<u>1,688,654</u>	<u>9,553,373</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:

	<i>2009</i>		<i>2008</i>	
	<i>Latest Maturity</i>	<i>Interest rates %</i>	<i>Carrying value</i>	<i>Carrying value</i>
Subordinated debt of US\$ 500 millions	2017	6.95	743,986	758,502
Subordinated debt of EUR 50 millions	2021	Euribor + 3.5	106,910	-
Subordinated bonds payable of EUR 30 millions	2016	Euribor + 1.57	64,146	63,474
Subordinated deposit of EUR 24 millions	2016	4.42 - 6.06	<u>50,780</u>	<u>101,573</u>
			965,822	923,549
Accrued interest on subordinated liabilities			<u>24,621</u>	<u>23,981</u>
			<u>990,443</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 31 December 2009, subordinated deposits obtained by the consolidated banking affiliate in Holland amounted to EUR 24 millions (equivalent of TL 50,780 thousands) (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 in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, 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.

### *Investment allowance*

The Temporary Article 69 added to the Income Tax Law no.193 with the Law no.5479, which became effective starting from 1 January 2006, upon being promulgated in the Official Gazette no.26133 dated 8 April 2006, stating that taxpayers can deduct the amount of the investment allowance exemption which they are entitled to according to legislative provisions effective at 31 December 2005 (including rulings on the tax rate) only from the taxable income of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006. At this perspective, an investment allowance which cannot be deducted partially or fully in three years time was not allowed to be carried forward to the following years and became unavailable as of 31 December 2008. On the other side, the Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of the Article 2 and the Article 15 of the Law no.5479 and the investment allowance rights on the investment expenditures incurred during the period of 1 January 2006 and 8 April 2006 became unavailable.

However, at 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of “2006, 2007, 2008” in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, the time limitations for the carried forward investment allowances that were entitled to in the previous period of mentioned date and the limitations related with the investments expenditures incurred between the issuance date of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010.

According to the decision mentioned above, the investment allowances carried forward to the year 2006 due to the lack of taxable income and the investment allowances earned through the investments started before 1 January 2006 and continued after that date constituting economic and technical integrity will be used not only in 2006, 2007 and 2008, but also in the following years. In addition, 40% of investment expenditures that are realized between 1 January 2006 and 8 April 2006, within the context of the Article 19 of the Income Tax Law will have the right for investment allowance exemption.

### *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 and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an

## **19 Taxation (continued)**

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.

### *Tax applications for foreign affiliates*

### *HOLLAND*

In Holland, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25.5% for the excess part over this amount 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.

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**19 Taxation (continued)***RUSSIA*

The applicable tax rate for current and deferred tax for the Bank's consolidated affiliate in Russia is 20% (2% federal and 18% regional-in some locations 4.5% regional) (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:

	<u>2009</u>	<u>%</u>	<u>2008</u>	<u>%</u>
Taxes on income per statutory tax rate	785,939	20.00	471,758	20.00
Provision for general banking risks	66,000	1.68	-	-
Disallowable expenses	8,576	0.22	6,773	0.29
Tax exemption for leasing business <sup>(*)</sup>	(32,383)	(0.83)	-	-
Income items exempt from tax or subject to different tax rates	(4,063)	(0.10)	(31,522)	(1.34)
Defined benefit obligation	-	-	(20,520)	(0.87)
Others	<u>10,963</u>	<u>0.28</u>	<u>6,288</u>	<u>0.27</u>
Taxation charge	<u>835,032</u>	<u>21.25</u>	<u>432,777</u>	<u>18.35</u>

<sup>(\*)</sup> As per the annulment decision of the Turkish Constitutional Court as explained in Note 3.18.4, Garanti Finansal Kiralama, a consolidated subsidiary of the Bank, is subject to investment allowance ruling and can use its available allowances to reduce its taxable corporate income without any time limitations. Accordingly, a deferred tax asset amounting TL 32,383 thousands is recorded in the accompanying consolidated financial statements as of 31 December 2009 considering the fact that Garanti Finansal Kiralama may use its right of deducting investment allowances from its corporate income in the future.

The taxation charge is comprised of the following:

	<u>2009</u>	<u>2008</u>
Current taxes	884,220	442,315
Deferred taxes	(49,188)	(9,538)
Taxation charge	<u>835,032</u>	<u>432,777</u>

The movement of current tax liability is as follows:

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the period	127,684	5,301
Current period taxation charge	884,220	442,315
Current taxes recognised under equity	208,022	135,665
Less: Prepaid corporate taxes	(994,698)	(455,597)
Current tax liability	<u>225,228</u>	<u>127,684</u>

## 19 Taxation (continued)

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:

	<u>2009</u>	<u>2008</u>
Unrealised gains on available-for-sale assets	(307,427)	(50,461)
Hedging reserve	<u>542</u>	<u>812</u>
	<u>(306,885)</u>	<u>(49,649)</u>

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

	<u>2009</u>	<u>2008</u>
<i>Deferred tax asset</i>		
Impairment losses on loans	71,008	68,266
Tax exemption for leasing business	32,383	-
Valuation difference on financial assets and liabilities	28,288	27,190
Short-term employee benefits	25,728	31,684
Impairment of equity participations and tangible assets	18,863	21,974
Discount on miscellaneous receivables	11,017	6,932
Reserve for employee severance indemnity	8,546	8,893
Accruals on credit card rewards	7,242	7,241
Prepaid expenses and promotions	(20,626)	(33,860)
Pro-rata basis depreciation expenses	(17,795)	(16,710)
Defined benefit obligations	-	20,520
Others, net	<u>(10,739)</u>	<u>(22,385)</u>
Total deferred tax asset	<u>153,915</u>	<u>119,745</u>
<i>Deferred tax liability</i>		
Total deferred tax liability	<u>10,850</u>	<u>-</u>

As of 31 December 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:

	<u>Opening Balance</u>	<u>Recognized in Income statement</u>	<u>Recognized in equity</u>	<u>Closing balance</u>
<u>2009</u>				
Impairment losses on loans	68,266	2,742	-	71,008
Tax exemption for leasing business	-	32,383	-	32,383
Valuation difference on financial assets and liabilities	27,190	26,696	(25,598)	28,288
Short-term employee benefits	31,684	(5,956)	-	25,728
Impairment of equity participations and tangible assets	21,974	(3,111)	-	18,863
Discount on miscellaneous receivables	6,932	4,085	-	11,017
Reserve for employee severance indemnity	8,893	(347)	-	8,546
Accruals on credit card rewards	7,241	1	-	7,242
Prepaid expenses and promotions	(33,860)	13,234	-	(20,626)
Pro-rata basis depreciation expenses	(16,710)	(1,085)	-	(17,795)
Defined benefit obligations	20,520	(20,520)	-	-
Others, net	<u>(22,385)</u>	<u>1,066</u>	<u>(270)</u>	<u>(21,589)</u>
Net deferred tax asset	<u>119,745</u>	<u>49,188</u>	<u>(25,868)</u>	<u>143,065</u>

**19 Taxation (continued)**

	<i>Opening</i> <i>Balance</i>	<i>Recognized in</i> <i>Income</i> <i>statement</i>	<i>Recognized</i> <i>in equity</i>	<i>Closing</i> <i>balance</i>
<b><i>2008</i></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.

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.

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**20 Other liabilities and accrued expenses**

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

	<u>2009</u>	<u>2008</u>
Blocked accounts against expenditures of card holders	2,219,902	1,815,228
Payables to insurance and reinsurance companies		
relating to insurance business	1,350,281	905,744
Provision for general banking risks	360,000	30,000
Accrued exchange losses on derivatives	344,899	605,962
Withholding taxes	163,072	268,635
Insurance business related provisions	128,614	123,603
Short-term employee benefits	125,691	154,992
Provision for non-cash loans	96,822	39,959
Cheques at clearing house	95,833	48,879
Unearned income	90,856	107,673
Miscellaneous payables	80,715	69,724
Expense accruals	71,253	85,350
Transfer orders	64,478	66,793
Reserve for employee severance indemnity	44,044	45,513
Blocked accounts	39,814	35,561
Payables to suppliers relating to financial lease activities	32,462	52,691
Recognized liability for defined benefit obligations	-	102,601
Others	<u>111,711</u>	<u>96,861</u>
	<u>5,420,447</u>	<u>4,655,769</u>

As of 31 December 2009, a general provision amounting to TL 360,000 thousands (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 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.



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

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 publication 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 15 January 2010 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 2009.

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.

## 20 Other liabilities and accrued expenses (continued)

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 2009 the present value of funded obligations amount to TL 113,417 thousands (2008: TL 176,416 thousands) and the fair value of the planned assets amount to TL 836,163 thousands (2008: TL 621,594 thousands).

	<u>2009</u>	<u>2008</u>
Present value of funded obligations		
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(287,981)	(296,328)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	191,521	135,400
- General administrative expenses	<u>(16,957)</u>	<u>(15,488)</u>
	(113,417)	(176,416)
Fair value of plan assets	<u>836,163</u>	<u>621,594</u>
Asset surplus in the plan (*)	<u>722,746</u>	<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:

	<u>2009</u>	<u>2008</u>
Securities	665,590	480,552
Land and buildings	97,750	110,600
Cash and due from banks	<u>72,823</u>	<u>30,442</u>
	<u>836,163</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:

	<u>2009</u>	<u>2008</u>
Present value of defined benefit obligations		
- Pension	(188,494)	(162,356)
- Health	(209,445)	(250,023)
Fair value of plan assets (*)	<u>722,746</u>	<u>445,178</u>
Asset surplus over present value of defined benefit obligation	<u>324,807</u>	<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 2009 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 324,807 thousands (2008: TL 32,799 thousands) remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting TL 191,521 thousands (2008: TL 135,400 thousands) as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there are no excess obligation that needs to be provided against as of 31 December 2009. Accordingly, it was decided to reverse the provision amounting TL 102,601 thousands that was

## 20 Other liabilities and accrued expenses (continued)

charged fully as expense in prior years, in the accompanying consolidated financial statements as of 31 December 2009.

	<u>2009</u>	<u>2008</u>
Asset surplus over present value of defined benefit obligation	324,807	32,799
Net present value of medical benefits and health premiums transferable to SSF	(191,521)	(135,400)
Present value of asset surplus/(defined benefit obligation)	<u>133,286</u>	<u>(102,601)</u>

The pension benefits are calculated annually by an independent actuary.

Expenses recognized regarding this benefit plan in the accompanying consolidated statements of comprehensive income for the year ended 31 December 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Total contribution payment	114,761	86,715
Provision for unfunded liability	-	-
	<u>114,761</u>	<u>86,715</u>

Principal actuarial assumptions used are as follows:

	<u>2009</u>	<u>2008</u>
	<u>%</u>	<u>%</u>
Discount rates	10.86-8.42	17.41-10.51
Inflation rates	6.90-4.80	9.50-5.73
Future real salary increase rates	1.5	1.5
Medical cost trend rates	20.50-6.80	17.80-11.77
Future pension increase rates	6.90-4.80	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:

<b>2009</b>			
<b><i>% change in defined benefit obligation</i></b>			
	<b><i>Pension Benefits</i></b>	<b><i>Medical Benefits</i></b>	<b><i>Overall</i></b>
<b><i>Assumption change</i></b>	<b><i>%</i></b>	<b><i>%</i></b>	<b><i>%</i></b>
Discount rate +1%	(11.1)	(12.5)	(11.3)
Discount rate -1%	13.8	15.8	14.1
Medical inflation +10% of CPI		7.7	4.1
Medical inflation -10% of CPI		(6.7)	(3.5)
<b>2008</b>			
<b><i>% change in defined benefit obligation</i></b>			
	<b><i>Pension Benefits</i></b>	<b><i>Medical Benefits</i></b>	<b><i>Overall</i></b>
<b><i>Assumption change</i></b>	<b><i>%</i></b>	<b><i>%</i></b>	<b><i>%</i></b>
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:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	154,992	100,402
Payments during the year, net	(225,258)	(217,834)
Reversals during the year	(10,624)	-
Provision for the year, net	<u>206,581</u>	<u>272,424</u>
Balance, end of the year	<u>125,691</u>	<u>154,992</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<u>2009</u>	<u>2008</u>
Reserve for unearned premiums, net	48,005	43,571
<i>Gross</i>	80,942	53,666
<i>Reinsurers' share</i>	(32,937)	(10,095)
Provision for claims, net	10,505	7,428
<i>Gross</i>	20,352	7,765
<i>Reinsurers' share</i>	(9,847)	(337)
Life mathematical reserves	<u>70,104</u>	<u>72,604</u>
	<u>128,614</u>	<u>123,603</u>

### *Reserve for employee severance indemnity*

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

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	45,513	44,868
Reversals during the year	(3,466)	(8,816)
Provision for the year	<u>1,997</u>	<u>9,461</u>
Balance, end of the year	<u>44,044</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 31 December 2009 and 2008, respectively.

The principal actuarial assumptions are as follows:

	<u>2009</u>	<u>2008</u>
	<u>%</u>	<u>%</u>
Discount rate	5.92	6.26
Interest rate	11.00	12.00
Expected rate of salary/limit increase (*)	4.80	5.40
Turnover rate to estimate the probability of retirement	6.70	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:

	<u>2009</u>	<u>2008</u>
Balance, beginning of the year	39,959	32,142
Provision for the year, net	<u>56,863</u>	<u>7,817</u>
Balance, end of the year	<u>96,822</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 31 December 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 210,000,000,000 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 31 December 2009, net minority interest amounts to TL 49,098 thousands (2008: TL 35,201 thousands). Minority interest is detailed as follows:

	<u>2009</u>	<u>2008</u>
Capital	14,250	14,012
Retained earnings and other reserves	20,906	9,389
Current period net income	<u>13,942</u>	<u>11,800</u>
	<u>49,098</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:*

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	177,751	189,382
Net unrealised gains from changes in fair value	1,577,549	81,536
Related deferred and current income taxes	(284,283)	(31,896)
Net gains transferred to the statement of comprehensive income on disposal	(137,055)	(76,435)
Related deferred and current income taxes	<u>27,317</u>	<u>15,164</u>
Balance at the end of the year	<u>1,361,279</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 in its separate financial statements a 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 383,638 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 55,049,638 thousands (2008: TL 53,874,335 thousands), whereas the carrying amount is TL 54,765,251 thousands (2008: TL 53,870,069 thousands) in the accompanying consolidated statement of financial position as at 31 December 2009.

Fair value of investment securities is TL 37,827,525 thousands (2008: TL 26,117,422 thousands), whereas the carrying amount is TL 37,237,584 thousands (2008: TL 26,112,129 thousands) in the accompanying consolidated statement of financial position as at 31 December 2009.

The table below analyses financial instruments carried at fair value, by valuation method:

<u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	554,267	9,955	158,531	722,753
Accrued exchange gain on derivatives	150,192	491,908	362	642,462
Debt and other instruments available-for-sale	27,779,077	383,061	1,607,621	29,769,759
Investments in equity participations	15	-	50,926	50,941
Financial Assets at Fair Value	<u>28,483,551</u>	<u>884,924</u>	<u>1,817,440</u>	<u>31,185,915</u>
Accrued exchange losses on derivatives	136,426	207,804	669	344,899
Financial Liabilities at Fair Value	<u>136,426</u>	<u>207,804</u>	<u>669</u>	<u>344,899</u>
<u>2008</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	191,139	13,638	359,360	564,137
Accrued exchange gain on derivatives	197,253	614,843	301	812,397
Debt and other instruments available-for-sale	16,142,966	477,859	1,706,922	18,327,747
Investments in equity participations	29	-	40,562	40,591
Financial Assets at Fair Value	<u>16,531,387</u>	<u>1,106,340</u>	<u>2,107,145</u>	<u>19,744,872</u>
Accrued exchange losses on derivatives	172,968	429,835	3,159	605,962
Financial Liabilities at Fair Value	<u>172,968</u>	<u>429,835</u>	<u>3,159</u>	<u>605,962</u>

Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## 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:

	<u>2009</u>	<u>2008</u>
Letters of guarantee	12,160,346	11,012,449
Letters of credit	2,827,018	3,320,801
Acceptance credits	125,841	123,807
Others	-	110,000
	<u>15,113,205</u>	<u>14,567,057</u>

As at 31 December 2009, commitment for uncalled capital of affiliated companies amounts to TL 12,386 thousands (2008: TL 812 thousands).

As at 31 December 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 18,373,576 thousands (2008: TL 17,520,902 thousands) in total.

As at 31 December 2009, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 487,046 thousands (2008: TL 340,676 thousands) in total.

As at 31 December 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 23,663,196 thousands (2008: TL 24,023,479 thousands), approximately 83% of which are due within a year.

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

	<u>2009</u>		<u>2008</u>	
	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>
Forward agreements for customer dealing activities	418,894	794,089	615,838	893,999
Currency swap agreements for customer dealing activities	263,736	7,904	839,727	74,756
Options for customer dealing activities	2,142,552	213,907	214,852	216,481
Forward agreements for hedging purposes	930,718	133,869	685,667	205,272
Currency swap agreements for hedging purposes	7,007,320	3,143,517	6,574,919	7,498,424
Interest rate and credit default swap agreements	25,595	103,231	71,108	343,647
Interest rate, foreign currency and securities options	2,993,491	4,035,197	2,324,025	2,568,395
Forward rate agreements, foreign currency and interest rate futures	7,703	32,184	2,273	13,279
Forward agreements for gold trading	193,490	228,311	7,849	145,009
Spot foreign currency transactions	583,399	404,089	483,788	244,171
	<u>14,566,898</u>	<u>9,096,298</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



## 23 Commitments and contingencies (continued)

contracts of cash flow hedges as stated above. At 31 December 2009, approximately 100% of the net foreign currency open position of the consolidated statement of financial position was hedged through the use of foreign currency contracts (2008: 112%).

<b>2009</b>	<i>Notional amount with remaining life of</i>					<b>Total</b>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>Over 1 year</i>	
<b><i>Interest Rate Derivatives</i></b>						
Interest rate swaps	5,862	12,406	4,577	105,300	681	128,826
<i>Purchases</i>	4,247	11,507	2,025	7,135	681	25,595
<i>Sales</i>	1,615	899	2,552	98,165	-	103,231
Interest rate futures	-	35,184	-	-	-	35,184
<i>Purchases</i>	-	3,000	-	-	-	3,000
<i>Sales</i>	-	32,184	-	-	-	32,184
<b><i>Other Derivatives</i></b>						
Securities, shares and index options	1,727	-	116,151	5,996	3,421,120	3,544,994
<i>Purchases</i>	1,727	-	108,717	-	1,710,560	1,821,004
<i>Sales</i>	-	-	7,434	5,996	1,710,560	1,723,990
Other forward contracts	308,082	99,648	14,071	-	-	421,801
<i>Purchases</i>	123,529	55,890	14,071	-	-	193,490
<i>Sale</i>	184,553	43,758	-	-	-	228,311
<b><i>Currency Derivatives</i></b>						
Spot exchange contracts	987,488	-	-	-	-	987,488
<i>Purchases</i>	583,399	-	-	-	-	583,399
<i>Sales</i>	404,089	-	-	-	-	404,089
Forward exchange contracts	1,383,752	287,371	338,168	151,451	116,828	2,277,570
<i>Purchases</i>	913,923	155,915	133,290	106,478	40,006	1,349,612
<i>Sales</i>	469,829	131,456	204,878	44,973	76,822	927,958
Currency/cross currency swaps	6,300,930	1,809,091	1,295,272	533,592	483,592	10,422,477
<i>Purchases</i>	4,676,713	624,434	970,536	515,781	483,592	7,271,056
<i>Sales</i>	1,624,217	1,184,657	324,736	17,811	-	3,151,421
Options	2,798,193	1,238,261	968,563	835,136	-	5,840,153
<i>Purchases</i>	2,126,051	503,288	340,066	345,634	-	3,315,039
<i>Sales</i>	672,142	734,973	628,497	489,502	-	2,525,114
Foreign currency futures	-	4,181	522	-	-	4,703
<i>Purchases</i>	-	4,181	522	-	-	4,703
<i>Sale</i>	-	-	-	-	-	-
Subtotal Purchases	8,429,589	1,358,215	1,569,227	975,028	2,234,839	14,566,898
Subtotal Sales	3,356,445	2,127,927	1,168,097	656,447	1,787,382	9,096,298
Total of Transactions	<u>11,786,034</u>	<u>3,486,142</u>	<u>2,737,324</u>	<u>1,631,475</u>	<u>4,022,221</u>	<u>23,663,196</u>

## 23 Commitments and contingencies (continued)

<u>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
<i>Purchases</i>	705	12,124	26,473	16,606	15,200	71,108
<i>Sales</i>	2,400	5,604	156,469	178,127	1,047	343,647
Interest rate futures	-	4,709	1	-	-	4,710
<i>Purchases</i>	-	-	1	-	-	1
<i>Sales</i>	-	4,709	-	-	-	4,709
<u>Other Derivatives</u>						
Securities, shares and index options	-	-	68,200	30,969	1,692,640	1,791,809
<i>Purchases</i>	-	-	68,200	10,642	846,320	925,162
<i>Sales</i>	-	-	-	20,327	846,320	866,647
Other forward contracts	128,009	15,974	8,875	-	-	152,858
<i>Purchases</i>	5,970	1,879	-	-	-	7,849
<i>Sale</i>	122,039	14,095	8,875	-	-	145,009
<u>Currency Derivatives</u>						
Spot exchange contracts	727,959	-	-	-	-	727,959
<i>Purchases</i>	483,788	-	-	-	-	483,788
<i>Sales</i>	244,171	-	-	-	-	244,171
Forward exchange contracts	1,102,185	712,221	211,708	198,808	175,854	2,400,776
<i>Purchases</i>	661,873	333,970	139,056	98,498	68,108	1,301,505
<i>Sales</i>	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
<i>Purchases</i>	2,570,681	1,438,698	880,855	1,754,017	770,395	7,414,646
<i>Sales</i>	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
<i>Purchases</i>	515,908	404,703	414,572	266,926	11,606	1,613,715
<i>Sales</i>	828,260	359,857	333,680	382,169	14,263	1,918,229
Foreign currency futures	-	10,842	-	-	-	10,842
<i>Purchases</i>	-	2,272	-	-	-	2,272
<i>Sale</i>	-	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 is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issues's credit standing) that affect the Bank's income or the value of its holdings of financial instruments.

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. The risks are assessed in a continuously developing manner. The Bank, through its training and management standards and procedures, aims to manage those risks effectively. 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 Turkish 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 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 clearing houses. 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, bond, equity index, interest rate options, not only vanilla options but also exotic 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 board of directors 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. 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 years 2009 and 2008 are as follows:

	<b>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 (%)	140.51	175.51	99.52	117.84
	<b>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

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 the banks.

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 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:

	31 December 2009					Total	31 December 2008					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year		Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	
<b>MONETARY ASSETS</b>												
<b>Turkish Lira</b>												
Cash and balances with central banks	3,843,873	-	-	-	-	3,843,873	2,519,678	-	-	-	-	2,519,678
Financial assets at fair value through profit or loss	49,826	8,427	291,207	93,871	99	443,430	22,173	2,230	40,665	87,929	2,267	155,264
Loans and advances to banks	1,851,747	190,096	228,464	1,910,000	-	4,180,307	739,727	40,897	71,053	936,707	-	1,788,384
Loans and advances to customers	9,926,592	2,979,534	3,173,092	8,830,287	2,392,225	27,301,730	9,207,023	3,509,951	2,938,457	7,940,741	2,308,772	25,904,944
Accrued exchange gain on derivatives	217,911	259,098	36,024	27,099	-	540,132	39,404	80,084	454,129	96,835	2,226	672,678
Other assets	153,689	1,377,319	459	913	2,884	1,535,264	192,176	920,753	16	5	6,530	1,119,480
Security investments	38,049	1,555,317	7,433,171	20,638,536	1,749,187	31,414,260	77,398	1,094,374	2,103,031	17,051,920	790,999	21,117,722
Deferred tax asset	-	-	-	153,915	-	153,915	-	-	-	102,031	-	102,031
Total Turkish Lira monetary assets	16,081,687	6,369,791	11,162,417	31,654,621	4,144,395	69,412,911	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	1,735,325	-	-	-	-	1,735,325	1,452,855	-	-	-	-	1,452,855
Financial assets at fair value through profit or loss	112,005	44,888	113,551	4,144	4,735	279,323	85,930	3,052	125,437	187,228	7,226	408,873
Loans and advances to banks	1,933,636	1,152,365	811,806	237,566	2,451,367	6,586,740	3,736,536	262,072	1,127,298	313,532	776,419	6,215,857
Loans and advances to customers	1,544,165	2,695,080	5,750,221	7,807,238	9,421,658	27,218,362	1,272,896	2,782,704	6,070,877	8,346,844	9,304,124	27,777,445
Accrued exchange gain on derivatives	57,125	17,478	17,406	10,321	-	102,330	19,323	64,654	33,284	19,286	3,172	139,719
Other assets	2,130,987	1,985	4,902	6,255	4,209	2,148,338	1,743,174	956	5,036	6,333	14,528	1,770,027
Security investments	268,799	151,742	659,963	2,087,407	2,655,413	5,823,324	56,669	36,985	412,004	1,874,347	2,614,402	4,994,407
Deferred tax asset	-	-	-	-	-	-	-	-	-	17,714	-	17,714
Total foreign currency monetary assets	7,782,042	4,063,538	7,357,849	10,152,931	14,537,382	43,893,742	8,367,383	3,150,423	7,773,936	10,765,284	12,719,871	42,776,897
Total Monetary Assets	23,863,729	10,433,329	18,520,266	41,807,552	18,681,777	113,306,653	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	32,118,933	3,782,795	324,057	44,667	-	36,270,452	26,490,260	2,273,438	255,104	99,786	-	29,118,588
Obligations under repurchase agreements	9,804,642	368	416,428	155,813	-	10,377,251	9,880,488	325	-	571,711	-	10,452,524
Loans and advances from banks	962,021	29,627	91,362	2,284,461	766,690	4,134,161	788,187	101,421	359,391	697,630	790,327	2,736,956
Subordinated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Accrued exchange loss on derivatives	60,393	44,361	49,821	11,558	52,327	218,460	51,938	94,122	274,735	101,872	23,660	546,327
Other liabilities and accrued expenses	2,496,402	6,422	1,825,929	164,592	601,832	5,095,177	2,042,108	1,553	1,382,351	193,635	332,116	3,951,763
Total Turkish Lira monetary liabilities	45,442,391	3,863,573	2,707,597	2,661,091	1,420,849	56,095,501	39,252,981	2,470,859	2,271,581	1,664,634	1,146,103	46,806,158
<b>Foreign currency</b>												
Deposits	26,649,859	2,702,368	2,122,059	928,193	108,433	32,510,912	23,472,334	2,078,233	2,107,100	1,076,571	104,261	28,838,499
Obligations under repurchase agreements	387,478	-	-	-	-	387,478	285,792	192,877	221,987	-	0	700,656
Loans and advances from banks	204,548	301,499	4,228,298	3,687,774	3,022,015	11,444,134	273,750	433,303	4,712,709	3,246,269	2,040,596	10,706,627
Subordinated liabilities	14,493	15,019	1,810	8,721	950,400	990,443	798	571	51,900	99,839	794,422	947,530
Accrued exchange loss on derivatives	49,871	18,437	28,850	29,281	-	126,439	10,788	15,484	14,559	18,673	131	59,635
Other liabilities and accrued expense:	111,852	51,391	37,450	10,554	5,202	216,449	105,363	53,797	59,043	30	7,495	225,728
Total foreign currency monetary liabilities	27,418,101	3,088,714	6,418,467	4,664,523	4,086,050	45,675,855	24,148,825	2,774,265	7,167,298	4,441,382	2,946,905	41,478,675
Total Monetary Liabilities	72,860,492	6,952,287	9,126,064	7,325,614	5,506,899	101,771,356	63,401,806	5,245,124	9,438,879	6,106,016	4,093,008	88,284,833

## 24 Financial risk management disclosures (continued)

### *Contractual maturity analysis of liabilities according to remaining maturities*

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affiliates' financial liabilities as per their earliest likely contractual maturities.

<i>31 December 2009</i>								
	<i>Carrying</i>	<i>Nominal</i>		<i>Up to 1</i>	<i>1 to 3</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over 5</i>
	<i>Value</i>	<i>Principal</i>	<i>Demand</i>	<i>Month</i>	<i>Months</i>	<i>Months</i>	<i>Years</i>	<i>Years</i>
	<i>Value</i>	<i>Outflows</i>	<i>Demand</i>	<i>Month</i>	<i>Months</i>	<i>Months</i>	<i>Years</i>	<i>Years</i>
Deposits	68,781,364	68,532,233	14,165,598	44,437,944	6,450,125	2,409,420	961,106	108,040
Obligations under repurchase agreements	10,764,729	10,705,561	-	10,155,193	368	400,000	150,000	-
Loans and advances from banks	15,578,295	15,335,083	-	1,163,866	318,726	4,299,299	5,843,529	3,709,663
Subordinated liabilities	<u>990,443</u>	<u>965,822</u>	-	<u>14,492</u>	<u>15,019</u>	<u>1,811</u>	<u>8,721</u>	<u>925,779</u>
Total Monetary Liabilities	<u>96,114,831</u>	<u>95,538,699</u>	<u>14,165,598</u>	<u>55,771,495</u>	<u>6,784,238</u>	<u>7,110,530</u>	<u>6,963,356</u>	<u>4,743,482</u>
<i>31 December 2008</i>								
	<i>Carrying</i>	<i>Nominal</i>		<i>Up to 1</i>	<i>1 to 3</i>	<i>3 to 12</i>	<i>1 to 5</i>	<i>Over 5</i>
	<i>Value</i>	<i>Principal</i>	<i>Demand</i>	<i>Month</i>	<i>Months</i>	<i>Months</i>	<i>Years</i>	<i>Years</i>
	<i>Value</i>	<i>Outflows</i>	<i>Demand</i>	<i>Month</i>	<i>Months</i>	<i>Months</i>	<i>Years</i>	<i>Years</i>
Deposits	57,957,087	57,574,216	10,585,743	39,053,787	4,325,748	2,382,093	1,109,628	117,217
Obligations under repurchase agreements	11,153,180	11,091,707	-	10,135,480	189,217	217,010	550,000	-
Loans and advances from banks	13,443,583	13,154,879	-	1,055,198	527,853	5,036,554	3,809,047	2,726,227
Subordinated liabilities	<u>947,530</u>	<u>923,549</u>	-	-	-	-	<u>165,047</u>	<u>758,502</u>
Total Monetary Liabilities	<u>83,501,380</u>	<u>82,744,351</u>	<u>10,585,743</u>	<u>50,244,465</u>	<u>5,042,818</u>	<u>7,635,657</u>	<u>5,633,722</u>	<u>3,601,946</u>

### *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 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.



**Türkiye Garanti Bankası AŞ and Its Affiliates**

Notes to Consolidated Financial Statements

As of and for the Year Ended 31 December 2009

(Currency: Thousands of Turkish Lira (TL))

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

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 Year Ended 31 December 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:

	<b>31 December 2009</b>						
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 year</i>	<i>Non-Interest Bearing</i>	<i>Total</i>
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	3,351,365	-	-	-	-	2,227,833	5,579,198
Financial assets at fair value through profit or loss	34,081	56,454	398,212	88,691	4,393	140,922	722,753
Loans and advances to banks	4,137,538	3,758,610	1,892,926	20,173	-	957,800	10,767,047
Loans and advances to customers	16,357,657	9,017,763	12,956,187	10,795,744	4,594,967	797,774	54,520,092
Other assets	15,921	459	5,364	7,168	7,093	4,290,059	4,326,064
Security investments	9,552,720	7,121,971	8,608,275	6,833,422	1,869,226	3,251,970	37,237,584
Deferred tax asset	-	-	-	-	-	153,915	153,915
<b>Total Monetary Assets</b>	<b>33,449,282</b>	<b>19,955,257</b>	<b>23,860,964</b>	<b>17,745,198</b>	<b>6,475,679</b>	<b>11,820,273</b>	<b>113,306,653</b>
<b>MONETARY LIABILITIES</b>							
Deposits	46,284,665	6,497,116	3,468,519	704,054	403	11,826,607	68,781,364
Obligations under repurchase agreements	10,155,173	368	400,000	149,999	-	59,189	10,764,729
Loans and advances from banks	7,692,537	4,584,984	2,545,438	512,125	-	243,211	15,578,295
Subordinated liabilities	13,919	78,421	852,646	8,427	12,410	24,620	990,443
Other liabilities and accrued expenses	-	-	-	-	-	5,656,525	5,656,525
<b>Total Monetary Liabilities</b>	<b>64,146,294</b>	<b>11,160,889</b>	<b>7,266,603</b>	<b>1,374,605</b>	<b>12,813</b>	<b>17,810,152</b>	<b>101,771,356</b>
	<b>31 December 2008</b>						
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 year</i>	<i>Non-Interest 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 years 2009 and 2008:

	<b>2009</b>			
	<u>US\$</u> %	<u>EUR</u> %	<u>TL</u> %	<u>Other</u> <u>Currencies</u> %
<i>Assets</i>				
Loans and advances to banks	0-8	1-7	7-11	3-12
Debt and other fixed or floating income instruments	6	4	14	-
Loans and advances to customers	3-17	1-17	7-27	1-23
<i>Liabilities</i>				
Deposits:				
- Foreign currency deposits	1-8	2-8	-	2-11
- Bank deposits	0-8	1-7	7	3-6
- Saving deposits	-	-	3-14	-
- Commercial deposits	-	-	3-16	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements	5	-	7	5-8
Loans and advances from banks	2-6	1-6	7-12	3
<b>2008</b>				
	<u>US\$</u> %	<u>EUR</u> %	<u>TL</u> %	<u>Other</u> <u>Currencies</u> %
<i>Assets</i>				
Loans and advances to banks	0-7	1-8	15-23	-
Debt and other fixed or floating 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.

As a part of the duration-gap analysis, the bank-only sensitivity analysis for a +/-1 point change in the present values of interest sensitive balance sheet items excluding trading and available-for-sale portfolios and for a +/-5% point change in the foreign currency exchange rates used for foreign currency position and derivative transactions as of 31 December 2009 is provided in the table below:

### *Sensitivity analysis for TL interest rates:*

<i>Stress applied</i>	<i>Change in portfolio value</i>
(+) %1	(74,663)
(-) %1	75,211

### *Sensitivity analysis for FC interest rates:*

<i>Stress applied</i>	<i>Change in portfolio value</i>
(+) %1	(143,505)
(-) %1	161,347

### *Sensitivity analysis for FX rates:*

<i>Stress applied</i>	<i>Change in foreign exchange resut</i>
(+) %5	10,637
(-) %5	22,195

The consolidated value at market risks as of 31 December 2009 and 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:

	2009			2008		
	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Interest rates risk	4,154,963	4,918,525	3,672,500	2,949,982	3,672,500	1,197,599
Common share risk	134,243	194,213	99,300	135,565	200,888	50,527
Currency risk	321,835	470,113	215,850	185,936	226,325	155,075
Option risk	359,468	587,950	122,325	214,980	353,475	122,325
Total value at risk	<u>4,970,509</u>	<u>6,170,801</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.

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

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.

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 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 gap 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:

	<b>2009</b>			
	<b><u>US\$</u></b>	<b><u>EUR</u></b>	<b><u>Other Currencies</u></b>	<b><u>Total</u></b>
<i>Assets</i>				
Cash and balances with central banks	201,270	1,486,493	47,562	1,735,325
Financial assets at fair value				
through profit or loss	116,360	53,088	109,875	279,323
Loans and advances to banks	3,617,909	2,855,044	113,787	6,586,740
Loans and advances to customers	16,595,822	9,723,454	961,373	27,280,649
Other assets	1,764,619	593,985	30,099	2,388,703
Investment securities	4,647,766	828,512	347,046	5,823,324
Investments in equity participations	-	681	-	681
Tangible assets	248	83,353	45,041	128,642
Deferred tax asset	-	-	-	-
<b>Total Assets</b>	<b><u>26,943,994</u></b>	<b><u>15,624,610</u></b>	<b><u>1,654,783</u></b>	<b><u>44,223,387</u></b>
<i>Liabilities</i>				
Deposits	16,984,523	14,145,545	1,380,844	32,510,912
Obligations under repurchase agreements	157,453	-	230,025	387,478
Loans and advances from banks	6,853,671	4,582,132	8,331	11,444,134
Current and deferred tax liability	-	9,621	1,575	11,196
Subordinated liabilities	766,434	224,009	-	990,443
Other liabilities and accrued expenses	142,329	164,016	25,347	331,692
<b>Total Liabilities</b>	<b><u>24,904,410</u></b>	<b><u>19,125,323</u></b>	<b><u>1,646,122</u></b>	<b><u>45,675,855</u></b>
<b>Net Statement of Financial Position</b>	<b><u>2,039,584</u></b>	<b><u>(3,500,713)</u></b>	<b><u>8,661</u></b>	<b><u>(1,452,468)</u></b>
<b>Net Off Balance Sheet Position</b>	<b><u>(2,403,384)</u></b>	<b><u>3,731,707</u></b>	<b><u>117,015</u></b>	<b><u>1,445,338</u></b>
<b>Net Long/(Short) Position</b>	<b><u>(363,800)</u></b>	<b><u>230,994</u></b>	<b><u>125,676</u></b>	<b><u>(7,130)</u></b>
<b>2008</b>				
	<b><u>US\$</u></b>	<b><u>EUR</u></b>	<b><u>Other Currencies</u></b>	<b><u>Total</u></b>
<b>Total Assets</b>	<b><u>28,718,124</u></b>	<b><u>13,236,609</u></b>	<b><u>1,034,830</u></b>	<b><u>42,989,563</u></b>
<b>Total Liabilities</b>	<b><u>23,201,218</u></b>	<b><u>17,321,887</u></b>	<b><u>955,570</u></b>	<b><u>41,478,675</u></b>
<b>Net Statement of Financial Position</b>	<b><u>5,516,906</u></b>	<b><u>(4,085,278)</u></b>	<b><u>79,260</u></b>	<b><u>1,510,888</u></b>
<b>Net Off Balance Sheet Position</b>	<b><u>(5,762,984)</u></b>	<b><u>4,080,591</u></b>	<b><u>(10,020)</u></b>	<b><u>(1,692,413)</u></b>
<b>Net Long/(Short) Position</b>	<b><u>(246,078)</u></b>	<b><u>(4,687)</u></b>	<b><u>69,240</u></b>	<b><u>(181,525)</u></b>

## **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 137,937 thousands at 31 December 2009 (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 to customers</i>	
	<u>2009</u>	<u>2008</u>
Individually impaired	2,533,818	1,368,312
Allowance for impairment	(1,947,621)	(984,281)
Carrying amount	<u>586,197</u>	<u>384,031</u>
Collectively impaired	-	-
Allowance for impairment	(341,038)	(196,351)
Carrying amount	<u>(341,038)</u>	<u>(196,351)</u>
Past due but not impaired	590,128	607,054
Carrying amount	<u>590,128</u>	<u>607,054</u>
Neither past due nor impaired	53,730,219	53,019,768
Loans with renegotiated terms	199,745	55,567
Carrying amount	<u>53,929,964</u>	<u>53,075,335</u>
Total carrying amount	<u>54,765,251</u>	<u>53,870,069</u>

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

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 concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and medium-size enterprises is presented below. The small and micro-size enterprises, consumer loans and credit card portfolios are not included in this table as they are subject to different rating scorings on a product basis.

	<u>2009</u>	<u>2008</u>
	<u>%</u>	<u>%</u>
Above Average	40	50
Average	50	43
Below Average	<u>10</u>	<u>7</u>
	100	100

### *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.



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

	<u>2009</u>	<u>2008</u>
Consumer loans	1,426,770	808,931
Textile	232,445	131,530
Construction	126,242	50,755
Food	84,456	40,260
Agriculture and stockbreeding	76,896	37,786
Chemistry and chemical products	76,141	70,525
Service sector	56,634	29,128
Metal and metal products	49,992	17,371
Transportation and logistics	33,650	10,257
Durable consumption	32,358	18,078
Tourism	28,772	19,095
Transportation vehicles and sub-industries	22,677	9,504
Paper and paper products	19,751	2,246
Energy	16,521	4,270
Others	<u>250,513</u>	<u>118,576</u>
Total non-performing loans and lease receivables	<u>2,533,818</u>	<u>1,368,312</u>

	<u>2009</u>	<u>2008</u>
Turkey	2,486,830	1,343,227
Romania	15,835	5,905
Russia	15,301	5,176
Brasil	10,084	10,327
Others	<u>5,768</u>	<u>3,677</u>
Total non-performing loans and lease receivables	<u>2,533,818</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

## 24 Financial risk management disclosures (continued)

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 31 December 2009 and 2008.

Approximately 72% 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 78%.

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

	<u>2009</u>	<u>2008</u>
<i>Cash loans</i>		
Secured loans:	<u>38,630,197</u>	<u>37,858,171</u>
Secured by cash collateral	1,008,408	1,217,556
Secured by mortgages	13,601,268	12,945,098
Secured by government institutions or government securities	2,153,757	2,015,479
Guarantees issued by financial institutions	275,959	169,122
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	21,590,805	21,510,916
Unsecured loans	<u>15,094,340</u>	<u>14,678,214</u>
Total performing loans and financial lease receivables	<u>53,724,537</u>	<u>52,536,385</u>
<i>Non-cash loans</i>		
Secured loans:	<u>11,836,363</u>	<u>12,007,037</u>
Secured by cash collateral	582,994	594,599
Secured by mortgages	1,638,132	1,453,631
Guarantees issued by financial institutions	73,604	4,921
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	9,541,633	9,953,886
Unsecured loans	<u>3,276,842</u>	<u>2,560,020</u>
Total non-cash loans	<u>15,113,205</u>	<u>14,567,057</u>

## 24 Financial risk management disclosures (continued)

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

	<u>2009</u>	<u>2008</u>
Mortgages	679,306	341,058
Promissory notes and sureties	597,107	295,228
Pledge assets	253,481	151,207
Cash collateral	3,055	372
Unsecured	<u>1,000,869</u>	<u>580,447</u>
	<u>2,533,818</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.

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.

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### 24 Financial risk management disclosures (continued)

- 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.

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

	<u>2009</u>	<u>2008</u>
Tier 1 capital	12,202,610	9,506,293
Tier 2 capital	2,023,609	1,415,587
Deductions from capital	<u>(100,665)</u>	<u>(461,243)</u>
Total regulatory capital	<u>14,125,554</u>	<u>10,460,637</u>
Value at credit, market and operational risks	<u>73,721,822</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	19.16	14.85
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	16.55	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

## 24 Financial risk management disclosures (continued)

floating rate income/payments into fixed rate income/payments. The following table includes certain characteristics of such swap transaction outstanding as of 31 December 2009:

<i>Notional amount</i>	<i>Fixed payer rate (%)</i>	<i>Floating payer rate (%)</i>	<i>Fixed payment frequency</i>	<i>Maturity</i>
US\$ 82.5 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 31 December 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

	<u>2009</u>	<u>2008</u>
<i>Fee and commission income:</i>		
Credit cards fees	1,037,325	1,058,992
Retail banking	441,379	327,344
SME banking	249,368	196,986
Commercial banking	184,241	137,871
Corporate banking	94,567	78,176
Others	<u>157,541</u>	<u>166,055</u>
Total fee and commission income	<u>2,164,421</u>	<u>1,965,424</u>
<i>Fee and commission expense:</i>		
Credit cards fees	274,597	316,544
Retail banking	13,809	14,564
SME banking	6,471	4,604
Commercial banking	2,085	1,277
Others	<u>141,802</u>	<u>127,446</u>
Total fee and commission expense	<u>438,764</u>	<u>464,435</u>
Net fee and commission income	<u>1,725,657</u>	<u>1,500,989</u>

As of 31 December 2008, interest income from factoring receivables amounting TL 77,344 thousands is classified to interest income on loans from fee and commission income.

## 27 Other operating expenses

	<u>2009</u>	<u>2008</u>
Advertising expenses	108,880	110,862
EDP expenses	89,843	83,507
Saving deposits insurance fund	67,761	60,883
Utility expenses	65,217	47,583
Repair and maintenance expenses	33,565	30,814
Research and development expenses	25,650	22,017
Claim loss from insurance business	22,718	27,286
Others	<u>319,881</u>	<u>310,462</u>
	<u>733,515</u>	<u>693,414</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 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

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

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.

### 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 (h) *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 (h) *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.

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

- 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 Law for the Amendments to the Law on the Procedure for the Collection of Public Receivables and Certain Laws” was accepted by the Planning and Budget Commission Of the Turkish Parliament at the meeting held on 20 January 2010 and became effective by being published on the Official Gazette dated 5 February 2010. According to aforementioned Law; banks founded in Turkey and the foreign banks having head offices in Turkey are required to pay TL 200,000 for each year to obtain operating license. The banks founded to operate in the free trade zones and branches of the foreign banks are required to pay TL 200,000 for each branch and for each year to obtain operating license. All the branches of the banks including the branches operating in free trade zones (excluding branches of the foreign banks established in free trade zones) are required to pay license fee according to the population of the operating area at the beginning of the prior calender year; branches operating in the municipalities which have population up to 5,000 are required to pay TL 12,000; branches operating in the municipalities which have population between 5,000 and 25,000 are required to pay TL 36,000; and branches operating in the municipalities which have population more than 25,000 and branches operating in the free trade zones are required to pay 48,000 for each year and for each branch.

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