



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

Consolidated Financial Statements

30 June 2008

With Report on Review of Interim
Financial Information Thereon

5 August 2008

This report contains the “Report on Review of Interim Financial Information” comprising 1 page and; the “Consolidated financial statements and their explanatory notes” comprising 74 pages.

Türkiye Garanti Bankası Anonim Şirketi
And Its Affiliates

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying consolidated balance sheet of Türkiye Garanti Bankası Anonim Şirketi (the Bank) and its affiliates as of 30 June 2008 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Bank and its affiliates as at 30 June 2008, and of its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34.

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

İstanbul,
5 August 2008

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Balance Sheet

At 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

	<u>Notes</u>	<u>30 June 2008</u>	<u>31 December 2007</u>
Assets			
Cash and balances with central banks	4	2,012,508	2,874,979
Financial assets at fair value through profit or loss	5	857,718	1,004,018
Loans and advances to banks	6	5,688,680	5,049,041
Loans and advances to customers	7	49,035,462	41,042,495
Other assets	9	4,739,211	6,168,558
Security investments	10,21	18,955,353	17,835,310
Investments in equity participations	11	54,626	49,776
Tangible assets, net	12	1,139,248	1,162,901
Goodwill, net	13	33,170	33,170
Deferred tax asset	19	126,776	104,472
Total assets		<u>82,642,752</u>	<u>75,324,720</u>
Liabilities			
Deposits from banks	14	2,427,259	2,436,093
Deposits from customers	15	46,149,589	41,334,747
Obligations under repurchase agreements	16	8,325,553	8,591,954
Loans and advances from banks	17	12,746,807	11,440,372
Bonds payable	18	56,998	50,912
Current tax liability	19	76,307	5,301
Deferred tax liability	19	-	30
Other liabilities and accrued expenses	20	4,477,712	4,213,543
Total liabilities		<u>74,260,225</u>	<u>68,072,952</u>
Shareholders' equity and minority interest			
Share capital	21	3,046,371	3,046,371
Capital reserves	21,30	2,111,880	-
Minority interest	21	28,650	23,410
Unrealised (losses)/gains on available-for-sale assets	10,21	(390,516)	189,382
Hedging reserve	21	(1,574)	31,464
Translation reserve	21	24,967	6,709
Legal reserves	21	288,609	172,678
Retained earnings	21	3,274,140	3,781,754
Total shareholders' equity and minority interest		<u>8,382,527</u>	<u>7,251,768</u>
Total liabilities, shareholders' equity and minority interest		<u>82,642,752</u>	<u>75,324,720</u>
Commitments and contingencies	23		

The notes on pages 5 to 74 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates

Consolidated Income Statement For The Six-Month Period Ended 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

	Notes	Six-month period ended 30 June 2008	Three-month period ended 30 June 2008	Six-month period ended 30 June 2007	Three-month period ended 30 June 2007
Interest income:-					
<i>Interest on loans</i>		2,752,896	1,418,257	2,094,309	1,117,075
<i>Interest on securities</i>		1,318,070	674,943	1,192,282	566,861
<i>Interest on deposits at banks</i>		314,938	149,061	276,741	138,521
<i>Interest on lease business</i>		116,720	57,394	83,441	43,717
<i>Others</i>		50,712	24,772	40,793	17,516
		<u>4,553,336</u>	<u>2,324,427</u>	<u>3,687,566</u>	<u>1,883,690</u>
Interest expense:-					
<i>Interest on saving, commercial and public deposits</i>		(1,856,971)	(956,228)	(1,460,206)	(744,990)
<i>Interest on borrowings and obligations under repurchase agreements</i>		(868,618)	(429,547)	(696,621)	(355,082)
<i>Interest on bank deposits</i>		(81,583)	(40,138)	(68,592)	(29,230)
<i>Others</i>		(2,517)	(951)	(7,403)	(4,442)
		<u>(2,809,689)</u>	<u>(1,426,864)</u>	<u>(2,232,822)</u>	<u>(1,133,744)</u>
Net interest income		1,743,647	897,563	1,454,744	749,946
Fee and commission income		994,709	500,704	828,593	424,801
Fee and commission expense		(198,367)	(110,311)	(203,227)	(110,131)
Net fee and commission income	26	796,342	390,393	625,366	314,670
<i>Foreign exchange gains, net</i>		119,164	73,125	204,028	140,070
<i>Premium income from insurance business</i>		60,589	29,207	159,276	90,211
<i>Income on sale of shares in consolidated affiliates</i>		-	-	703,803	703,803
<i>Other operating income</i>		64,852	46,544	43,861	22,627
Other operating income		244,605	148,876	1,110,968	956,711
Total operating Income		2,784,594	1,436,832	3,191,078	2,021,327
<i>Salaries and wages</i>		(461,076)	(202,021)	(302,990)	(147,420)
<i>Impairment losses</i>	7,8,9,11,12,13,20	(232,012)	(113,533)	(140,100)	(64,806)
<i>Employee benefits</i>	20	(111,727)	(54,943)	(84,887)	(46,232)
<i>Depreciation and amortization</i>	12	(86,065)	(43,237)	(86,799)	(45,535)
<i>Communication expenses</i>		(65,307)	(33,311)	(53,538)	(30,098)
<i>Rent expenses</i>		(51,059)	(27,453)	(37,789)	(18,844)
<i>Claim loss from insurance business</i>		(12,530)	(3,491)	(56,490)	(28,170)
<i>Trading losses, net</i>	5	(3,733)	(33,700)	(283,007)	(183,758)
<i>Other operating expenses</i>	27	(482,572)	(264,618)	(361,468)	(199,832)
Total operating expenses		(1,506,081)	(776,307)	(1,407,068)	(764,695)
Taxation charge	19	(230,821)	(101,775)	(244,473)	(141,864)
Net income for the period		1,047,692	558,750	1,539,537	1,114,767
Net income for the period attributable to:					
<i>Equity holders of the Bank</i>		1,042,452	556,238	1,535,234	1,110,795
<i>Minority interest</i>		5,240	2,512	4,303	3,972
		<u>1,047,692</u>	<u>558,750</u>	<u>1,539,537</u>	<u>1,114,767</u>
Weighted average number of shares with a face value of YTL 1,000 each	21	2,100 billion	2,100 billion	2,100 billion	2,100 billion
Earnings per share (full YTL amount per YTL'000 face value each)		496.4	264.9	731.1	529.0

The notes on pages 5 to 74 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Statement of Changes in Shareholders' Equity
For The Six-Month Period Ended 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

	Notes	Share Capital	Capital Reserves	Minority Interest	Unrealised (Losses)/Gains on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Total Shareholders' Equity and Minority Interest
Balances at 31 December 2006		3,046,371	-	7,845	122,562	3,148	14,405	113,053	1,633,020	4,940,404
Transfer to unappropriated earnings		-	-	-	-	-	-	64,541	(64,541)	-
Dividends paid		-	-	-	-	-	-	-	(219,319)	(219,319)
Net unrealised market value gains from available-for-sale portfolio		-	-	-	9,560	-	-	-	-	9,560
Net gains on available-for-sale assets transferred to the income statement on disposal		-	-	-	(2,751)	-	-	-	-	(2,751)
Foreign currency translation differences for foreign operations		-	-	-	-	-	(4,765)	-	-	(4,765)
Net fair value losses from cash flow hedges		-	-	-	-	(5,744)	-	-	-	(5,744)
Release of reserves due to sale of a consolidated affiliate		-	-	-	-	-	-	(4,591)	4,591	-
Reclassification to minority interest due to partial sale of a consolidated affiliate		-	-	7,588	(19)	-	-	-	440	8,009
Net income for the six-month period		-	-	4,303	-	-	-	-	1,535,234	1,539,537
Balances at 30 June 2007		3,046,371	-	19,736	129,352	(2,596)	9,640	173,003	2,889,425	6,264,931
Transfer to unappropriated earnings		-	-	-	-	-	-	(325)	325	-
Dividends paid		-	-	-	-	-	-	-	(155)	(155)
Net unrealised market value gains from available-for-sale portfolio		-	-	-	67,484	-	-	-	-	67,484
Net gains on available-for-sale assets transferred to the income statement on disposal		-	-	-	(7,454)	-	-	-	-	(7,454)
Foreign currency translation differences for foreign operations		-	-	-	-	-	(2,931)	-	-	(2,931)
Net fair value gains from cash flow hedges		-	-	-	-	34,060	-	-	-	34,060
Net income for the six-month period		-	-	3,674	-	-	-	-	892,159	895,833
Balances at 31 December 2007		3,046,371	-	23,410	189,382	31,464	6,709	172,678	3,781,754	7,251,768
Collections from shareholders for capital increase	21,30	-	2,111,880	-	-	-	-	-	-	2,111,880
Payment for founder shares repurchased	21	-	-	-	-	-	-	-	(1,434,233)	(1,434,233)
Transfer to unappropriated earnings	21	-	-	-	-	-	-	115,833	(115,833)	-
Foreign exchange difference on foreign currency legal reserves		-	-	-	-	-	-	98	-	98
Net unrealised market value losses from available-for-sale portfolio	21	-	-	-	(575,394)	-	-	-	-	(575,394)
Net gains on available-for-sale assets transferred to the income statement on disposal	21	-	-	-	(4,504)	-	-	-	-	(4,504)
Foreign currency translation differences for foreign operations		-	-	-	-	-	18,258	-	-	18,258
Net fair value gains from cash flow hedges	21	-	-	-	-	2,964	-	-	-	2,964
Net fair value gains from cash flow hedges transferred to the income statement on disposal	21	-	-	-	-	(36,002)	-	-	-	(36,002)
Net income for the six-month period		-	-	5,240	-	-	-	-	1,042,452	1,047,692
Balances at 30 June 2008		3,046,371	2,111,880	28,650	(390,516)	(1,574)	24,967	288,609	3,274,140	8,382,527

Türkiye Garanti Bankası AŞ And Its Affiliates
Consolidated Statement of Cash Flows
For The Six-Month Period Ended 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

	<u>Notes</u>	<u>30 June 2008</u>	<u>30 June 2007</u>
Cash flows from operating activities:-			
Interests and commissions received		3,303,920	3,054,216
Interest expenses paid		(2,812,935)	(1,818,286)
Other operating activities, net		122,578	837,471
Cash payments to employees and suppliers		(1,164,742)	(863,854)
		<u>(551,179)</u>	<u>1,209,547</u>
(Increase)/decrease in operating assets:-			
Loans and advances to banks		58,569	(1,918,343)
Balances with central banks		1,845,777	(665,705)
Financial assets at fair value through profit or loss		138,343	(188,539)
Loans and advances to customers		(5,801,668)	(3,903,498)
Consumer loans		(2,117,389)	(1,497,325)
Other assets		(305,316)	(170,398)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		(11,959)	617,691
Deposits from customers		4,748,531	3,116,502
Obligations under repurchase agreements		(284,291)	715,372
Other liabilities		420,546	106,600
Net cash used in operating activities before income taxes paid		<u>(1,860,036)</u>	<u>(2,578,096)</u>
Income taxes paid	19	<u>(42,528)</u>	<u>(221,598)</u>
Net cash used in operating activities		<u>(1,902,564)</u>	<u>(2,799,694)</u>
Cash flows from investing activities:-			
Net increase in security investments		(1,802,978)	(721,905)
Interest received		1,508,441	1,079,184
Increase in investments in equity participations, net		-	(157)
Dividends received		2,044	1,849
Proceeds from sale of tangible assets		122,209	33,560
Purchase of tangible assets		(146,948)	(120,972)
Net cash (used in)/from investing activities		<u>(317,232)</u>	<u>271,559</u>
Cash flows from financing activities:-			
Increase in loans and advances from banks, net		1,289,875	1,181,388
Equity instruments issued	21,30	2,111,880	-
Payment for founder shares repurchased	21	(1,434,233)	-
Dividends paid		-	(219,319)
Net cash from financing activities		<u>1,967,522</u>	<u>962,069</u>
Effect of exchange rate changes		<u>119,164</u>	<u>(6,284)</u>
Net decrease in cash and cash equivalents		<u>(133,110)</u>	<u>(1,572,350)</u>
Cash and cash equivalents at the beginning of the period		<u>4,315,192</u>	<u>4,204,216</u>
Cash and cash equivalents at the end of the period	2	<u><u>4,182,082</u></u>	<u><u>2,631,866</u></u>

The notes on pages 5 to 74 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the six-month period ended 30 June 2008 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 558 domestic branches, five foreign branches, four representative offices abroad and 113 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 17,832 employees. The Bank’s head office is located at Levent Nispetiye Mahallesi Aytar 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 New Turkish Lira (YTL) 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 Standard (“IFRS”) IAS 34 Interim Financial Reporting. The accompanying consolidated financial statements are authorized for issue by the directors on 5 August 2008.

(b) Basis of preparation

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

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

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

Significant accounting policies (continued)

(c) *Use of estimates and judgements*

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

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

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

(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.

Significant accounting policies (continued)

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates and jointly controlled entities are 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 YTL, 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 YTL at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the income statement as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the income statement as realized during the period.

Financial statements of foreign operations

The foreign operations of the Bank and its affiliates are not considered an integral part of its operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to YTL at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to YTL 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 income statement.

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 YTL 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)).

Significant accounting policies (continued)

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 income statement.

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 income statement as incurred.

Depreciation

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

The estimated useful lives are as follows:

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

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

(g) Goodwill

Goodwill represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative (negative goodwill), it is recognized immediately in the income statement. 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 income statement.

Significant accounting policies (continued)

(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.

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.

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.

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.

Significant accounting policies (continued)

Fair value measurement principles

The fair values of financial instruments are based on their quoted market prices at the balance sheet date 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 balance sheet date 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 income statement. 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 balance sheet. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

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

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

Net investment hedge

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

(j) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognized in the balance sheet 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 balance sheet 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 balance sheets, since such items are not under the ownership of the Bank.

(m) Financial guarantees

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

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

Significant accounting policies (continued)

(n) *Employee benefits*

(i) *Defined benefit plan*

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

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

	<i>30 June 2008</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 30 June 2008 as the value of the payment that would need to be made to SSF to settle the obligation at the balance sheet date 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 income statement.

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 16.77% - 10.17%.

Significant accounting policies (continued)

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

(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 income statement.

(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 tax 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 balance sheet 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. Permanent differences relating to goodwill and initial recognition of assets and liabilities which affect neither accounting nor taxable profit are not deductible for tax purposes. 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 income statement together with the deferred gains or losses that are realized.

Significant accounting policies (continued)

(p) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet 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.

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

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

(r) Impairment

Financial assets are reviewed at each balance sheet date 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 balance sheet date. 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 income statement. 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 income statement.

Significant accounting policies (continued)

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.

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

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 income statement.

(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 income statement when received.

Insurance business

Earned premiums: In respect of non-life branches, under the annual basis of accounting, written premiums comprise the premiums due on contracts, net of taxes and cancellations, entered into during a financial year. These premiums are adjusted by the reserve for unearned premiums. In respect of life branches, earned premiums represent premium accrued on policies issued and adjusted by the reserve for unearned premiums during the year.

Significant accounting policies (continued)

Unearned premium reserve: Reserve for unearned premiums is provided for in respect of in-force policies for which the premium period does not end simultaneously with the accounting period. Unearned premiums arise from premiums written during the year, less reinsurance share.

Claims and provision for “outstanding” claims: Claims incurred include all claims (including claim estimates) and claims settlement payments made in respect of the financial period and the movement in provision for outstanding claims and settlement expenses. Provisions for outstanding claims and settlement expenses include claims incurred but not reported (IBNR), net of salvage and subrogation recoveries.

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

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

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

(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*

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

Index for the notes to the consolidated financial statements:

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1 Segment reporting

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

1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in Holland, Russia, Ireland, 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:

	30 June 2008				
	<u>Loans</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Non-Cash Loans</u>	<u>Capital Expenditure</u>
	Turkey	46,616,884	73,517,226	54,640,764	11,358,184
England	88,455	1,935,222	4,698,370	484,350	-
Germany	225,295	1,431,470	2,532,061	86,370	38
Holland	153,556	1,372,367	2,190,499	862,493	4,401
Russia	732,068	1,305,308	213,393	145,781	32
Romania	497,199	847,828	459,467	90,713	11,048
USA	65,540	445,072	4,836,259	337,271	-
France	23,406	25,535	7,535	348,899	-
Others	633,059	1,762,724	4,681,877	1,307,734	-
	<u>49,035,462</u>	<u>82,642,752</u>	<u>74,260,225</u>	<u>15,021,795</u>	<u>139,590</u>

	31 December 2007				
	<u>Loans</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Non-Cash Loans</u>	<u>Capital Expenditure</u>
	Turkey	38,984,518	67,127,417	51,061,766	10,562,526
Holland	471,332	1,675,657	1,971,262	319,790	-
England	119,600	1,599,043	3,855,098	302,471	-
Germany	31,374	1,362,560	1,668,080	77,527	-
Russia	523,224	1,116,366	211,330	62,263	517
USA	37,275	471,726	5,132,038	318,572	-
Romania	256,544	385,859	265,807	56,552	21,341
France	14,259	23,845	135,062	229,914	-
Others	604,369	1,562,247	3,772,509	872,618	-
	<u>41,042,495</u>	<u>75,324,720</u>	<u>68,072,952</u>	<u>12,802,233</u>	<u>306,128</u>

Total geographic sector risk concentrations on income statement are presented in the table below:

	<u>Six-month period ended 30 June 2008</u>	<u>Three-month period ended 30 June 2008</u>	<u>Six-month period ended 30 June 2007</u>	<u>Three-month period ended 30 June 2007</u>
Turkey	929,084	477,160	1,467,049	1,095,057
Luxembourg	48,776	29,277	2,223	(2,956)
Holland	45,786	39,211	23,938	11,268
Malta	10,050	9,067	39,134	7,155
Others	13,996	4,035	7,193	4,243
	<u>1,047,692</u>	<u>558,750</u>	<u>1,539,537</u>	<u>1,114,767</u>

Türkiye Garanti Bankası AŞ and Its Affiliates

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(Currency: Thousands of New Turkish Lira (YTL))

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 are as follows:

	<i>Retail Banking</i>	<i>Commercial, Corporate & 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>
30 June 2008													
Operating income	1,017,507	806,488	787,833	-	2,611,828	54,277	73,446	13,383	18,954	12,645	2,784,533	61	2,784,594
Operating expenses	(467,367)	(256,444)	(669,142)	-	(1,392,953)	(19,727)	(37,961)	(8,872)	(16,410)	(11,684)	(1,487,607)	(18,474)	(1,506,081)
Income from operations	550,140	550,044	118,691	-	1,218,875	34,550	35,485	4,511	2,544	961	1,296,926	(18,413)	1,278,513
Taxation credit/(charge)	-	-	(221,950)	-	(221,950)	9	(7,182)	(1,124)	(456)	(268)	(230,971)	150	(230,821)
Net income for the period	550,140	550,044	(103,259)	-	996,925	34,559	28,303	3,387	2,088	693	1,065,955	(18,263)	1,047,692
Segment assets	15,770,632	31,745,711	30,827,704	(310,244)	78,033,803	2,193,598	946,228	908,961	43,630	11,812	82,138,032	(849,100)	81,288,932
Investments in equity participations	-	-	298,152	-	298,152	1,000	275	9,635	4,688	1,159	314,909	(260,283)	54,626
Unallocated assets	-	-	1,233,133	-	1,233,133	17,860	8,559	1,875	4,753	1,040	1,267,220	31,974	1,299,194
Total assets	15,770,632	31,745,711	32,358,989	(310,244)	79,565,088	2,212,458	955,062	920,471	53,071	14,011	83,720,161	(1,077,409)	82,642,752
Segment liabilities	26,591,242	18,753,378	26,349,146	(310,244)	71,383,522	1,966,616	834,485	877,278	4,159	5,301	75,071,361	(811,136)	74,260,225
Shareholders' equity and minority interest	-	-	8,181,566	-	8,181,566	245,842	120,577	43,193	48,912	8,710	8,648,800	(266,273)	8,382,527
Total liabilities, shareholders' equity and minority interest	26,591,242	18,753,378	34,530,712	(310,244)	79,565,088	2,212,458	955,062	920,471	53,071	14,011	83,720,161	(1,077,409)	82,642,752

Türkiye Garanti Bankası AŞ and Its Affiliates

Notes to Consolidated Financial Statements

As of and for the Six-Month Period Ended 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

1 Segment reporting (continued)

	<u>Retail Banking</u>	<u>Commercial, Corporate & SME Banking</u>	<u>Other Operations</u>	<u>Eliminations</u>	<u>Total Banking</u>	<u>Leasing</u>	<u>Insurance</u>	<u>Factoring</u>	<u>Other Financial</u>	<u>Other Non- Financial</u>	<u>Combined</u>	<u>Eliminations</u>	<u>Total</u>
<u>30 June 2007</u>													
Operating income	871,171	692,052	1,429,833	-	2,993,056	49,242	170,259	10,657	20,281	11,933	3,255,428	(64,350)	3,191,078
Operating expenses	(351,510)	(215,981)	(688,617)	-	(1,256,108)	(24,699)	(106,989)	(7,438)	(14,452)	(11,414)	(1,421,100)	14,032	(1,407,068)
Income from operations	519,661	476,071	741,216	-	1,736,948	24,543	63,270	3,219	5,829	519	1,834,328	(50,318)	1,784,010
Taxation charge	-	-	(233,363)	-	(233,363)	(26)	(8,865)	(641)	(1,422)	(156)	(244,473)	-	(244,473)
Net income for the period	<u>519,661</u>	<u>476,071</u>	<u>507,853</u>	<u>-</u>	<u>1,503,585</u>	<u>24,517</u>	<u>54,405</u>	<u>2,578</u>	<u>4,407</u>	<u>363</u>	<u>1,589,855</u>	<u>(50,318)</u>	<u>1,539,537</u>
<u>31 December 2007</u>													
Segment assets	13,682,475	25,979,466	31,400,256	(89,625)	70,972,572	2,132,203	768,686	638,241	46,792	10,814	74,569,308	(594,907)	73,974,401
Investments in equity participations	-	-	324,336	-	324,336	1,000	275	9,635	4,554	1,121	340,921	(291,145)	49,776
Unallocated assets	-	-	1,230,114	-	1,230,114	18,323	7,791	1,413	4,525	969	1,263,135	37,408	1,300,543
Total assets	<u>13,682,475</u>	<u>25,979,466</u>	<u>32,954,706</u>	<u>(89,625)</u>	<u>72,527,022</u>	<u>2,151,526</u>	<u>776,752</u>	<u>649,289</u>	<u>55,871</u>	<u>12,904</u>	<u>76,173,364</u>	<u>(848,644)</u>	<u>75,324,720</u>
Segment liabilities	23,946,399	16,521,575	25,030,059	(89,625)	65,408,408	1,940,243	684,365	609,483	8,952	4,887	68,656,338	(583,386)	68,072,952
Shareholders' equity and minority interest	-	-	7,118,614	-	7,118,614	211,283	92,387	39,806	46,919	8,017	7,517,026	(265,258)	7,251,768
Total liabilities, shareholders' equity and minority interest	<u>23,946,399</u>	<u>16,521,575</u>	<u>32,148,673</u>	<u>(89,625)</u>	<u>72,527,022</u>	<u>2,151,526</u>	<u>776,752</u>	<u>649,289</u>	<u>55,871</u>	<u>12,904</u>	<u>76,173,364</u>	<u>(848,644)</u>	<u>75,324,720</u>

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as at 30 June 2008 and 2007, included in the accompanying consolidated statements of cash flows are as follows:

	<i>30 June</i> <u>2008</u>	<i>30 June</i> <u>2007</u>
Cash at branches	431,466	292,322
Loans and advances to banks with original maturity periods of less than three months	<u>3,750,616</u>	<u>2,339,544</u>
	<u>4,182,082</u>	<u>2,631,866</u>

3 Related party disclosures

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

3.1 Outstanding balances

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
<i>Balance sheet</i>		
Loans and advances to customers	<u>191,052</u>	<u>157,832</u>
<i>Loans granted in YTL</i>	76,933	97,612
<i>Loans granted in foreign currencies:</i>	<i>US\$ 36,399,480</i>	<i>US\$ 22,547,863</i>
	<i>EUR 36,985,496</i>	<i>EUR 20,075,886</i>
Miscellaneous receivables	13,854	5,411
Deposits received	829,090	292,387
<i>Commitments and contingencies</i>		
Non-cash loans	181,258	169,696

3.2 Transactions

	<i>Six-month</i> <i>period ended</i> <u>30 June 2008</u>	<i>Three-month</i> <i>period ended</i> <u>30 June 2008</u>	<i>Six-month</i> <i>period ended</i> <u>30 June 2007</u>	<i>Three-month</i> <i>period ended</i> <u>30 June 2007</u>
Interest income	4,876	2,334	3,268	1,267
Interest expense	17,969	8,692	22,435	10,845

In the first half of 2008, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 3.9%-8.5% and 2.2%-6.1% (31 December 2007: 3.1%-7.4% and 3.8%-6.6%), respectively. The interest rates applied to YTL receivables from and payables to related parties vary within the ranges of 16.5%-21.0% and 14.6%-19.3%, respectively (31 December 2007: 16.3%-21.6% and 15.2%-19.0%). 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 at the year-end.

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. US\$ 15 millions of the sale price was collected on the date of sale, the Bank's net receivable from Doğuş Holding AŞ on this sale to be collected in one-year term is YTL 20,620 thousands, classified under "miscellaneous receivables" (Note 9), in the accompanying consolidated financial statements. Accordingly, a gain of YTL 267 thousands on this sale is recorded as of 30 June 2008.

Key management personnel compensation for the six-month period ended 30 June 2008 amounted YTL 56,762 thousands (30 June 2007: YTL 41,642 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted YTL 42,369 thousands (30 June 2007: YTL 27,472 thousands) and of its financial affiliates amounted YTL 14,393 thousands (30 June 2007: YTL 14,170 thousands).

4 Cash and balances with central banks

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</u>
Cash at branches	431,466	454,195
Balances with central banks excluding reserve deposits	<u>1,581,042</u>	<u>2,420,784</u>
	<u>2,012,508</u>	<u>2,874,979</u>

5 Financial assets at fair value through profit or loss

	<i>30 June</i>				<i>31 December</i>
	<u>2008</u>				<u>2007</u>
	<i>Face</i>	<i>Carrying</i>	<i>Interest rate</i>	<i>Latest</i>	<i>Carrying</i>
	<i>value</i>	<i>value</i>	<i>range %</i>	<i>maturity</i>	<i>value</i>
<i>Debt and other instruments held at fair value:</i>					
Government bonds in YTL	214,994	191,051	10-24	2014	205,146
Bonds issued by foreign institutions	78,092	80,092	7-9	2010	94,112
Discounted government bonds in YTL	92,596	77,931	9-22	2010	18,659
Eurobonds	59,898	70,425	5-12	2034	96,528
Gold	-	23,129	-	-	69,444
Government bonds in foreign currency	14,316	14,642	4-7	2010	10,516
Bonds issued by corporations	11,926	12,675	7-21	2010	24,467
Government bonds at floating rates	6,840	7,209	17-20	2014	4,527
Others		<u>42,880</u>			<u>52,643</u>
		520,034			576,042
<i>Equity and other non-fixed income instruments:</i>					
Forfeiting receivables		337,540			427,836
Listed shares		<u>144</u>			<u>140</u>
		<u>337,684</u>			<u>427,976</u>
Total financial assets at fair value through profit or loss		<u>857,718</u>			<u>1,004,018</u>

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

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

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

	<i>Six-month period ended 30 June 2008</i>	<i>Three-month period ended 30 June 2008</i>	<i>Six-month period ended 30 June 2007</i>	<i>Three-month period ended 30 June 2007</i>
Fixed / floating securities	24,772	6,667	52,697	7,863
Foreign exchange transactions	16,773	7,715	(3,507)	(4,072)
Derivate transactions	(45,278)	(48,082)	(332,197)	(187,549)
Trading income/(loss), net	(3,733)	(33,700)	(283,007)	(183,758)

Due to method change in valuation of derivative instruments, YTL 210,312 thousands and YTL 140,257 thousands are reclassified from “trading account gains/(losses)” to “foreign exchange gains/(losses)” for the six-month and three-month periods ended 30 June 2007, respectively.

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 86,287 thousands (31 December 2007: YTL 129,071 thousands).

As at 30 June 2008, financial assets at fair value through profit or loss amounting to YTL 98 thousands are blocked against asset management operation and insurance business related transactions (31 December 2007: YTL 1,915 thousands).

6 Loans and advances to banks

	<i>30 June 2008</i>			<i>31 December 2007</i>		
	<i>YTL</i>	<i>Foreign Currency</i>	<i>Total</i>	<i>YTL</i>	<i>Foreign Currency</i>	<i>Total</i>
<i>Loans and advances-demand</i>						
Domestic banks	2,740	3,128	5,868	1,429	3,901	5,330
Foreign banks	<u>85,175</u>	<u>304,616</u>	<u>389,791</u>	<u>35,180</u>	<u>218,824</u>	<u>254,004</u>
	<u>87,915</u>	<u>307,744</u>	<u>395,659</u>	<u>36,609</u>	<u>222,725</u>	<u>259,334</u>
<i>Loans and advances-time</i>						
Domestic banks	775,123	912,942	1,688,065	261,942	1,001,617	1,263,559
Foreign banks	<u>1,163,497</u>	<u>2,363,118</u>	<u>3,526,615</u>	<u>731,231</u>	<u>2,685,421</u>	<u>3,416,652</u>
	<u>1,938,620</u>	<u>3,276,060</u>	<u>5,214,680</u>	<u>993,173</u>	<u>3,687,038</u>	<u>4,680,211</u>
Accrued interest on loans and advances	<u>49,894</u>	<u>28,447</u>	<u>78,341</u>	<u>64,155</u>	<u>45,341</u>	<u>109,496</u>
Total loans and advances to banks	2,076,429	3,612,251	5,688,680	1,093,937	3,955,104	5,049,041
Less: allowance for uncollectibility	-	-	-	-	-	-
Net loans and advances to banks	<u>2,076,429</u>	<u>3,612,251</u>	<u>5,688,680</u>	<u>1,093,937</u>	<u>3,955,104</u>	<u>5,049,041</u>

As at 30 June 2008, majority of loans and advances-time are short-term with interest rates ranging between 2%-10% per annum for foreign currency time placements and 15%-26% per annum for YTL time placements (31 December 2007: 2%-7% and 16%-21%, respectively).

As at 30 June 2008, loans and advances at domestic and foreign banks include blocked accounts of YTL 1,214,629 thousands (31 December 2007: YTL 1,095,412 thousands) held against “Diversified Payment Rights” securitizations, fundings, legal legislations for the branches operating in foreign countries, and insurance business.

7 Loans and advances to customers

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

	<i>30 June</i> <i>2008</i>	<i>31 December</i> <i>2007</i>
Consumer loans	15,555,579	13,438,190
<i>Credit cards</i>	<i>6,359,135</i>	<i>5,430,110</i>
<i>Mortgage loans</i>	<i>4,855,021</i>	<i>4,156,756</i>
<i>General purpose loans</i>	<i>2,940,405</i>	<i>2,314,226</i>
<i>Auto loans</i>	<i>1,006,897</i>	<i>1,131,629</i>
<i>Other consumer loans</i>	<i>394,121</i>	<i>405,469</i>
Service sector	3,520,719	2,575,186
Energy	2,641,947	1,987,433
Construction	2,526,469	2,217,345
Transportation and logistics	2,286,806	1,653,543
Transportation vehicles and sub-industry	2,106,235	1,556,786
Financial institutions	2,093,026	1,949,021
Textile	1,867,886	1,526,818
Food	1,816,977	1,886,326
Metal and metal products	1,753,407	1,291,787
Tourism	1,298,349	999,291
Data processing	1,083,309	1,251,934
Durable consumption	901,182	818,559
Chemistry and chemical product	825,546	444,381
Agriculture and stockbreeding	670,726	710,237
Stone, rock and related products	587,072	437,162
Machinery and equipments	549,199	534,142
Electronic, optical and medical equipment	548,719	457,263
Plastic products	328,793	240,011
Mining	313,385	280,611
Paper and paper products	284,501	253,936
Others	<u>1,778,133</u>	<u>1,487,989</u>
Total performing loans	45,337,965	37,997,951
Non-performing loans and lease receivables	<u>993,727</u>	<u>869,567</u>
Total gross loans	46,331,692	38,867,518
Financial lease receivables, net of unearned income (Note 8)	2,079,538	1,923,040
Factoring receivables	822,768	494,400
Accrued interest income on loans and lease receivables	704,964	543,392
Allowance for possible losses from loans and lease receivables	<u>(903,500)</u>	<u>(785,855)</u>
Loans and advances to customers	<u>49,035,462</u>	<u>41,042,495</u>

As at 30 June 2008, interest rates on loans granted to customers range between 3%-16% (31 December 2007: 2%-16%) per annum for the foreign currency loans and 14%-32% (31 December 2007: 16%-31%) per annum for the YTL 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 YTL 156,600 thousands (31 December 2007: YTL 153,805 thousands).

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

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Balance at the beginning of the period	785,855	595,024
Write-offs	(79,481)	(83,513)
Recoveries and reversals	(19,634)	(41,780)
Provision for the period	<u>216,760</u>	<u>316,124</u>
Balance at the end of the period	<u>903,500</u>	<u>785,855</u>

Movement in the portfolio basis allowance are as follows:

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Balance at the beginning of the period	153,805	85,178
Net change in provision for the period, net	<u>2,795</u>	<u>68,627</u>
Balance at the end of the period	<u>156,600</u>	<u>153,805</u>

8 Financial lease receivables

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

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

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Financial lease receivables, net of unearned income (Note 7)	2,079,538	1,923,040
Add: non-performing lease receivables	21,790	16,181
Less: allowance for possible losses on lease receivable	<u>(21,790)</u>	<u>(16,819)</u>
	<u>2,079,538</u>	<u>1,922,402</u>
Accrued interest on lease receivables	<u>25,237</u>	<u>23,246</u>
<i>Analysis of net financial lease receivables</i>		
Due within 1 year	1,063,530	987,689
Due after 1 year	<u>1,351,886</u>	<u>1,240,013</u>
Financial lease receivables, gross	2,415,416	2,227,702
Unearned income	<u>(335,878)</u>	<u>(305,300)</u>
Financial lease receivables, net	<u>2,079,538</u>	<u>1,922,402</u>
<i>Analysis of net financial lease receivables, net</i>		
Due within 1 year	885,846	826,985
Due after 1 year	<u>1,193,692</u>	<u>1,095,417</u>
Financial lease receivables, net	<u>2,079,538</u>	<u>1,922,402</u>

9 Other assets

	<i><u>30 June</u></i> <i><u>2008</u></i>	<i><u>31 December</u></i> <i><u>2007</u></i>
Reserve deposits at the Central Bank of Turkey	3,058,169	4,907,841
Insurance premium receivables	731,141	580,695
Accrued exchange gain on derivatives	300,563	136,424
Prepaid expenses, insurance claims and similar items	270,084	202,262
Miscellaneous receivables (Note 3)	161,308	133,292
Tangible assets held for sale	81,677	112,886
Advances for tangible assets	46,807	19,085
Prepaid taxes and taxes and funds to be refunded	39,849	52,399
Others	<u>49,613</u>	<u>23,674</u>
	<u>4,739,211</u>	<u>6,168,558</u>

At 30 June 2008, 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 YTL 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 YTL and foreign currency liabilities are 9% and 11%, respectively. Interest rates applied for reserve requirements are 12.18% (31 December 2007: 11.81%) for YTL deposits and 1.00% and 1.80% (31 December 2007: 1.95% and 1.80%) for foreign currency deposits in US\$ and Euro.

YTL 74,535 thousands (31 December 2007: YTL 100,582 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 sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 June 2008, real estates held for sale amounting YTL 79,795 thousands (31 December 2007: YTL 117,055 thousands) have been impaired by YTL 4,688 thousands (31 December 2007: YTL 6,924 thousands).

As of 30 June 2008, the rights of repurchase on various tangible assets held for sale amounted to YTL 15,043 thousands (31 December 2007 : YTL 29,850 thousands).

10 Security investments

	30 June 2008				31 December 2007
	<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	4,505,256	4,855,554	18-21	2014	3,977,839
Discounted government bonds in YTL	3,814,376	3,314,038	19-22	2010	2,931,781
Government bonds in YTL	3,517,308	3,147,447	14-19	2012	2,649,515
Bonds issued by corporations (a)	1,552,747	1,537,577	3-18	2017	1,367,802
Eurobonds	1,412,587	1,375,874	5-12	2036	1,726,716
Bonds issued by financial institutions	317,174	319,998	5-12	2014	150,229
Government bonds in foreign currency	302,575	305,734	2-4	2010	509,559
Bonds issued by foreign governments	113,750	122,109	6-13	2028	42,735
Government bonds indexed to consumer price index	105,481	120,112	10	2012	120,324
Others (b)		<u>72,836</u>			<u>58,455</u>
Total securities available-for-sale		<u>15,171,279</u>			<u>13,534,955</u>
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds at floating rates	2,650,963	2,789,427	17-20 (c)	2011	2,837,628
Government bonds in YTL	487,075	468,483	14-17	2011	468,740
Eurobonds	323,456	352,091	9-12	2030	669,120
Bonds issued by corporations	1,808	1,796	8	2014	1,718
Bonds issued by foreign governments		-			116,617
Discounted government bonds in YTL		-			2,994
Others		<u>23,592</u>			<u>22,561</u>
		3,635,389			4,119,378
Accrued interest on held-to-maturity portfolio		<u>148,685</u>			<u>180,977</u>
Total securities held-to-maturity		<u>3,784,074</u>			<u>4,300,355</u>
Total security investments		<u>18,955,353</u>			<u>17,835,310</u>

(a) Bonds issued by corporations include credit linked notes with face value amounting to US\$ 875,000,000 (31 December 2007: US\$ 875,000,000) and carrying value amounting to YTL 1,054,375 thousands (31 December 2007: YTL 1,039,423 thousands) that are linked to the default risk of the Turkish Government. All bonds issued by corporations are valued at amortized cost since these financial assets are not quoted in an active market. The consolidated factoring affiliate's "financial assets available-for-sale" portfolio also includes private sector bonds with "credit linked notes" at a total face value of US\$ 28,850,000 and EUR 2,000,000 (31 December 2007: US\$ 35,850,000 and EUR 2,500,000) and a total carrying value of YTL 26,873 thousands (31 December 2007: YTL 30,633 thousands).

(b) In 2006, the Bank recorded 424,159 shares of MasterCard Incorporated at a total nominal value of US\$ 42.42 acquired free of charge for its credit card marketing activities on MasterCard. As of 27 July 2006, the Bank sold 250,254 shares of MasterCard Incorporated at a total nominal value of US\$ 25.03 amounting to US\$ 7,698,964.21. As of 30 June 2008, the Bank has 173,905 shares of MasterCard Incorporated at a nominal value of US\$ 17.39 and one share of Visa Europe Limited at a nominal value of EUR 10 acquired free of charge for its credit card marketing activities, in its investment securities available-for-sale portfolio.

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

10 Security investments (continued)

As of 30 June 2008 and 31 December 2007, the Bank has no allowance for the security investments.

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

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to YTL 8,882,232 thousands (31 December 2007: YTL 9,718,647 thousands).

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

	<u>30 June 2008</u>		<u>31 December 2007</u>	
	<u>Face Value</u>	<u>Carrying value</u>	<u>Face Value</u>	<u>Carrying value</u>
Collateralized to foreign banks	7,023,882	6,986,399	2,556,803	2,765,952
Deposited at Istanbul Stock Exchange	3,678,693	3,748,736	7,434,431	7,654,013
Deposited at central banks for repurchase transactions	1,192,147	1,147,336	79,412	76,429
Deposited at CBT for interbank transactions	520,430	540,210	516,600	537,225
Deposited at CBT for foreign currency money market transactions	192,000	210,670	192,400	212,552
Deposited at Clearing Bank (Takasbank)	133,610	128,959	97,325	98,888
Others		<u>36,708</u>		<u>35,691</u>
		<u>12,799,018</u>		<u>11,380,750</u>

11 Investments in equity participations

	<u>30 June 2008</u>		<u>31 December 2007</u>	
	<u>Carrying Value</u>	<u>Ownership %</u>	<u>Carrying Value</u>	<u>Ownership %</u>
Eureko Sigorta AŞ	33,674	20.00	28,997	20.00
IMKB Takasbank AŞ	11,962	5.83	11,992	5.83
Others	<u>8,990</u>		<u>8,787</u>	
	<u>54,626</u>		<u>49,776</u>	

Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ is 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 has been completed on 3 October 2007. The Bank owns 99.99% of the company shares. 1/4 of the share capital of the company amounting YTL 750 in total, is paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations comparing 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.

11 Investments in equity participations (continued)

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

Garanti Filo Yönetimi Hizmetleri ve Ticaret AŞ is 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 paid share capital is YTL 1,000 thousand as of the issue date of the financial statements. This company is not consolidated in the accompanying financial statements as currently it does not have material operations comparing 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.

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 YTL units current at 31 December 2005.

There is not any impairment losses as of 30 June 2008 and 2007 for the decreases in the value of certain investments in equity participations. Accordingly, the cumulative provisions for such impairment losses amounted to YTL 3,902 thousands as of 30 June 2008 (31 December 2007 : YTL 3,902 thousands).

12 Tangible assets

Movement in tangible assets from 1 January to 30 June 2008 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Adjustment for Currency Translation</u>	<u>Disposals</u>	<u>30 June</u>
<i>Costs</i>					
Land and buildings	1,096,919	26,817	7,147	(80,015)	1,050,868
Furniture, fixture and equipments	1,086,273	67,588	2,654	(54,854)	1,101,661
Leasehold improvements	<u>198,274</u>	<u>45,185</u>	<u>1,358</u>	<u>(3,350)</u>	<u>241,467</u>
	2,381,466	139,590	11,159	(138,219)	2,393,996
<i>Less: Accumulated depreciation</i>					
Buildings	229,497	11,445	753	(25,213)	216,482
Furniture, fixture and equipments	809,741	60,293	899	(37,318)	833,615
Leasehold improvements	<u>87,894</u>	<u>16,916</u>	<u>194</u>	<u>(2,801)</u>	<u>102,203</u>
	1,127,132	88,654	1,846	(65,332)	1,152,300
<i>Construction in progress</i>	<u>17,794</u>			(9,479) (a)	<u>8,315</u>
	1,272,128				1,250,011
<i>Impairment in value of tangible assets</i>	<u>(109,227)</u>				<u>(110,763)</u>
	<u>1,162,901</u>				<u>1,139,248</u>

12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2007 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Adjustment for Currency Translation</u>	<u>Disposals</u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,061,922	64,746	(4,934)	(24,815)	1,096,919
Furniture, fixture and equipments	1,105,376	165,659	(1,285)	(183,477)	1,086,273
Leasehold improvements	<u>214,480</u>	<u>65,264</u>	<u>(641)</u>	<u>(80,829)</u>	<u>198,274</u>
	2,381,778	295,669	(6,860)	(289,121)	2,381,466
<i>Less: Accumulated depreciation</i>					
Buildings	210,477	23,038	(449)	(3,569)	229,497
Furniture, fixture and equipments	843,754	135,739	(753)	(168,999)	809,741
Leasehold improvements	<u>137,258</u>	<u>26,427</u>	<u>(358)</u>	<u>(75,433)</u>	<u>87,894</u>
	1,191,489	185,204	(1,560)	(248,001)	1,127,132
<i>Construction in progress</i>	<u>7,335</u>	10,459	(a)		<u>17,794</u>
	1,197,624				1,272,128
<i>Impairment in value of tangible assets</i>	<u>(118,375)</u>				<u>(109,227)</u>
	<u>1,079,249</u>				<u>1,162,901</u>

(a) Additions to and transfers from "construction in progress" are given as net.

A portion of the disposals during the year 2007 amounting to YTL 14,099 thousands represented the tangible assets of the consolidated affiliate that is recorded under equity method of accounting in the accompanying consolidated financial statements as of 31 December 2007 following the sale of 80% ownership in this company by the Bank in June 2007.

Depreciation expense for the six-month period ended and the three-month period ended 30 June 2008 amounts to YTL 86,065 thousands and YTL 43,237 thousands respectively (the six-month period ended 30 June 2007: YTL 86,799 thousands and the three-month period ended 30 June 2007: YTL 45,535 thousands).

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 30 June 2008, land and buildings at a total net book value before impairment of YTL 394,263 thousands (31 December 2007: YTL 407,411 thousands) have been impaired by YTL 110,763 thousands (31 December 2007: YTL 109,227 thousands).

13 Goodwill

As of 30 June 2008, 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:

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</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 are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

14 Deposits from banks

Deposits from banks comprise the following:

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</u>
Payable on demand	427,554	376,914
Term deposits	<u>1,982,257</u>	<u>2,044,855</u>
	2,409,811	2,421,769
Accrued interest on deposits from banks	<u>17,448</u>	<u>14,324</u>
	<u>2,427,259</u>	<u>2,436,093</u>

Deposits from banks include both YTL accounts amounting YTL 668,501 thousands (31 December 2007: YTL 894,291 thousands) and foreign currency accounts amounting YTL 1,741,310 thousands (31 December 2007: YTL 1,527,478 thousands) in total. As at 30 June 2008, interest rates applicable to YTL bank deposits and foreign currency bank deposits vary within ranges of 13%-19% and 3%-7% (31 December 2007: 16%-21% and 4%-11%), respectively.

15 Deposits from customers

Deposits from customers comprise the following:

	30 June 2008			31 December 2007
	<u>Demand</u>	<u>Time</u>	<u>Total</u>	<u>Total</u>
Foreign currency	6,012,859	19,110,188	25,123,047	21,905,297
Saving	1,209,706	12,767,223	13,976,929	12,536,696
Commercial	1,779,951	3,384,713	5,164,664	5,886,583
Public and other	<u>1,444,544</u>	<u>153,022</u>	<u>1,597,566</u>	<u>785,098</u>
	10,447,060	35,415,146	45,862,206	41,113,674
Accrued interest expense on deposits from customers	<u>20,062</u>	<u>267,321</u>	<u>287,383</u>	<u>221,073</u>
	<u>10,467,122</u>	<u>35,682,467</u>	<u>46,149,589</u>	<u>41,334,747</u>

As at 30 June 2008, interest rates applicable to YTL deposits and foreign currency deposits vary within ranges of 13%-19% and 1%-9% (31 December 2007: 16%-21% and 1%-9%), respectively.

As at 30 June 2008, subordinated deposits obtained by the consolidated banking affiliate in Holland amounting EUR 48 millions (equivalent of YTL 91,194 thousands) are included in foreign currency time deposits (31 December 2007: EUR 48 millions, equivalent of YTL 81,458 thousands).

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>
30 June 2008					
Financial assets at fair value through profit or loss	86,287	86,287	74,394	Jul'08-Feb'09	75,516
Security investments	<u>8,882,232</u>	<u>8,888,134</u>	<u>8,251,159</u>	Jul'08-Feb'11	<u>8,420,959</u>
	<u>8,968,519</u>	<u>8,974,421</u>	<u>8,325,553</u>		<u>8,496,475</u>
31 December 2007					
Financial assets at fair value through profit or loss	129,071	129,071	116,469	Jan'08-Dec'08	117,551
Security investments	<u>9,718,647</u>	<u>9,720,363</u>	<u>8,475,485</u>	Jan'08-Feb'11	<u>8,686,021</u>
	<u>9,847,718</u>	<u>9,849,434</u>	<u>8,591,954</u>		<u>8,803,572</u>

Accrued interest on obligations under repurchase agreements amounting to YTL 88,838 thousands (31 December 2007: YTL 70,948 thousands) is included in the carrying amount of corresponding liabilities.

16 Obligations under repurchase agreements (continued)

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 30 June 2008, the maturities of the obligations varied from one day to two years and eight months and interest rates varied between 3%-18% (31 December 2007: 4%-18%).

17 Loans and advances from banks

Loans and advances from banks comprise the following:

	<i>30 June</i> <i>2008</i>	<i>31 December</i> <i>2007</i>
<u>Short-term borrowings</u>		
Domestic banks	812,820	683,481
Foreign banks	<u>2,316,888</u>	<u>1,997,630</u>
	3,129,708	2,681,111
<u>Long-term debts</u>		
Short-term portion	3,333,304	2,788,538
Medium and long-term portion	<u>6,080,674</u>	<u>5,784,163</u>
	9,413,978	8,572,701
Accrued interest on loans and advances from banks	<u>203,121</u>	<u>186,560</u>
	<u>12,746,807</u>	<u>11,440,372</u>

As at 30 June 2008, loans and advances from banks included various promissory notes amounting to YTL 1,194,085 thousands in total with latest maturity of 2009 (31 December 2007: YTL 1,084,457 thousands with latest maturity of 2009), of which YTL 100,016 thousands (31 December 2007: YTL 270,623 thousands) are classified under long-term debts.

As at 30 June 2008, short-term borrowings included one-year syndicated facility to finance pre-export contracts of the Bank's corporate customers with a total amount of EUR 600 millions (equivalent of YTL 1,139,760 thousands) with a rate of Euribor+0.675% per annum as signed with 31 banks.

17 Loans and advances from banks (continued)

Long-term debts comprise the following:

			30 June 2008			31 December 2007
	<i>Interest rate%</i>	<i>Latest Maturity</i>	<i>Amount in original currency</i>	<i>Short term portion</i>	<i>Medium and long term portion</i>	<i>Medium and long term debts</i>
Deutsche Bank AG	11.3-12.9	2017	YTL 701 mio	-	701,210	701,210
DPR Securitisation-IV	3.1-3.7	2013	US\$ 575 mio	76,714	614,316	693,993
DPR Securitisation-V	2.9-3.7	2013	US\$ 515 mio	77,566	541,268	583,534
Subordinated debt	6.9	2017	US\$ 500 mio	-	600,759	578,016
DPR Securitisation-VI	4.9	2011	EUR 259.8 mio	31,297	461,575	508,376
DPR Securitisation-VII	3.6	2016	US\$ 400 mio	14,444	467,431	463,543
DPR Securitisation-VIII	2.9	2017	US\$ 350 mio	-	421,336	405,486
DPR Securitisation-III	3	2013	US\$ 274.3 mio	66,094	264,400	312,470
DPR Securitisation-VI	3.5	2013	US\$ 255 mio	54,085	252,508	243,035
DPR Securitisation-VI	2.9	2016	US\$ 225 mio	-	270,544	260,381
DPR Securitisation-VII	3.6	2014	US\$ 100 mio	9,968	110,065	115,876
DPR Securitisation-VIII	2.9	2017	US\$ 100 mio	-	120,382	115,853
DPR Securitisation-VIII	2.9	2017	US\$ 100 mio	-	120,382	115,853
DPR Securitisation-VIII	3.6	2015	US\$ 50 mio	-	60,191	57,937
Syndicated club-term loan facility	2.9	2008	US\$ 700 mio	842,649	-	-
Others				<u>2,160,487</u>	<u>1,074,307</u>	<u>628,600</u>
				<u>3,333,304</u>	<u>6,080,674</u>	<u>5,784,163</u>

On 28 June 2007, the Bank obtained 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 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 (207.7 bps over comparable US Treasuries).

On 24 January 2007, the Bank borrowed YTL 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 YTL 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.

17 Loans and advances from banks (continued)

In November 2006, the Bank signed a two year syndicated club term-loan facility amounting to US\$ 700 millions as signed with 34 banks including 22 mandated lead arrangers.

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 Bonds payable

Bonds payable comprise of the following:

	<u>30 June 2008</u>			<u>31 December 2007</u>	
	<u>Amount in original currency in millions</u>	<u>Maturity</u>	<u>Interest rates %</u>	<u>Carrying value</u>	<u>Carrying value</u>
Subordinated debt	EUR	2016	Euribor+1.57	56,988	50,903
Accrued interest on bonds payable				<u>10</u>	<u>9</u>
				<u>56,998</u>	<u>50,912</u>

On 29 September 2006, one of the Bank’s affiliates issued its first FRN 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.

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 for the years 2008 and 2007.

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

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 Holland, corporate income tax is levied at the rate of 25.5% on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax has been calculated using the nominal tax rate of 25.5% over the Dutch taxable income, 30% (31 December 2007: 40%) over the local taxable income of Germany branch and 16% over the local taxable income of Romania branches.

19 Taxation (continued)

The applicable tax rate for current and deferred tax for the Bank's consolidated affiliate in Russia is 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.

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.

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

	<i>30 June</i> <u>2008</u>	<i>%</i>	<i>30 June</i> <u>2007</u>	<i>%</i>
Taxes on income per statutory tax rate	255,703	20.00	356,802	20.00
Defined benefit obligations	(32,920)	(2.57)	-	-
Disallowable expenses	20,444	1.60	5,420	0.30
Income items exempt from tax	(17,210)	(1.35)	(125,107)	(7.01)
Others	<u>4,804</u>	<u>0.37</u>	<u>7,358</u>	<u>0.41</u>
Taxation charge	<u>230,821</u>	<u>18.05</u>	<u>244,473</u>	<u>13.70</u>

The taxation charge is comprised of the following:

	<i>For the six-month period ended</i>	
	<i>30 June</i> <u>2008</u>	<i>30 June</i> <u>2007</u>
Current taxes	256,091	276,558
Deferred taxes	<u>(25,270)</u>	<u>(32,085)</u>
Taxation charge	<u>230,821</u>	<u>244,473</u>

The current taxes payable on income are comprised of the following:

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Provision for current taxes payable on income	230,821	340,414
Less: Prepaid corporate taxes	(179,784)	(363,809)
Add/(less): Deferred taxes	<u>25,270</u>	<u>28,696</u>
Current tax liability	<u>76,307</u>	<u>5,301</u>

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

19 Taxation (continued)

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

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Unrealised (losses)/gains on available-for-sale assets	68,938	(33,574)
Hedging reserve	<u>461</u>	<u>(7,866)</u>
	<u>69,399</u>	<u>(41,440)</u>

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

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
<i>Deferred tax asset</i>		
Impairment losses on loans	65,221	47,675
Defined benefit obligations	32,920	-
Short-term employee benefits	28,934	20,088
Impairment of equity participations and tangible assets	23,680	26,668
Reserve for employee severance indemnity	8,857	9,125
Accruals on credit card rewards	8,326	9,844
Discount on miscellaneous receivables	7,092	2,278
Valuation difference on financial assets and liabilities	5,891	24,649
Value increase fund for equity participations	(9,848)	(8,378)
Pro-rata basis depreciation expenses	(11,596)	(10,992)
Prepaid expenses and promotions	(32,664)	(21,203)
Others, net	<u>(37)</u>	<u>4,718</u>
Total deferred tax asset	<u>126,776</u>	<u>104,472</u>
<i>Deferred tax liability</i>		
Total deferred tax liability	<u>-</u>	<u>30</u>

As of 30 June 2008, there are not any deferred tax assets and liabilities that have not been recognized in the accompanying consolidated financial statements.

19 Taxation (continued)

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

	<i>Opening Balance</i>	<i>Recognized in Income statement</i>	<i>Recognized in equity</i>	<i>Closing balance</i>
<u>30 June 2008</u>				
Impairment losses on loans	47,675	17,546	-	65,221
Defined benefit obligations	-	32,920	-	32,920
Short-term employee benefits	20,088	8,846	-	28,934
Impairment of equity participations and tangible assets	26,668	(2,988)	-	23,680
Reserve for employee severance indemnity	9,125	(268)	-	8,857
Accruals on credit card rewards	9,844	(1,518)	-	8,326
Discount on miscellaneous receivables	2,278	4,814	-	7,092
Valuation difference on financial assets and liabilities	24,649	(15,822)	(2,936)	5,891
Value increase fund for equity participations	(8,378)	(1,470)	-	(9,848)
Pro-rata basis depreciation expenses	(10,992)	(604)	-	(11,596)
Prepaid expenses and promotions	(21,203)	(11,461)	-	(32,664)
Others, net	<u>4,688</u>	<u>(4,725)</u>	<u>-</u>	<u>(37)</u>
Net deferred tax asset	<u>104,442</u>	<u>25,270</u>	<u>(2,936)</u>	<u>126,776</u>
	<i>Opening Balance</i>	<i>Recognized in Income statement</i>	<i>Recognized in equity</i>	<i>Closing balance</i>
<u>31 December 2007</u>				
Impairment losses on loans	27,472	20,203	-	47,675
Impairment of equity participations and tangible assets	27,511	(843)	-	26,668
Valuation difference on financial assets and liabilities	(543)	18,433	6,759	24,649
Short-term employee benefits	18,934	1,154	-	20,088
Accruals on credit card rewards	9,210	634	-	9,844
Reserve for employee severance indemnity	7,471	1,654	-	9,125
Discount on miscellaneous receivables	3,363	(1,085)	-	2,278
Value increase fund for equity participations	(8,554)	176	-	(8,378)
Pro-rata basis depreciation expenses	(10,922)	(70)	-	(10,992)
Prepaid expenses and promotions	(8,319)	(12,884)	-	(21,203)
Others, net	<u>3,364</u>	<u>1,324</u>	<u>-</u>	<u>4,688</u>
Net deferred tax asset	<u>68,987</u>	<u>28,696</u>	<u>6,759</u>	<u>104,442</u>

20 Other liabilities and accrued expenses

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

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</u>
Blocked accounts against expenditures of card holders	1,907,194	1,683,270
Payables to insurance and reinsurance companies		
relating to insurance business	702,607	573,272
Accrued exchange losses on derivatives	407,642	538,841
Cheques at cleaning house	240,847	206,247
Recognized liability for defined benefit obligations	164,598	164,598
Short-term employee benefits	142,969	100,402
Withholding taxes	137,553	111,773
Insurance business related provisions	119,143	101,150
Transfer orders	116,521	178,187
Unearned income	82,181	55,104
Blocked accounts	72,631	47,487
Payables to suppliers relating to financial lease activities	69,708	90,298
Expense accruals	66,037	88,884
Miscellaneous payables	49,868	86,455
Reserve for employee severance indemnity	44,925	44,868
Provision for non-cash loans	39,176	32,142
Others	<u>114,112</u>	<u>110,565</u>
	<u>4,477,712</u>	<u>4,213,543</u>

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.

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

20 Other liabilities and accrued expenses (continued)

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 balance sheet 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 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 13 May 2008 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial balance sheet 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 2007.

20 Other liabilities and accrued expenses (continued)

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the balance sheet date in accordance with the related article of the New Law. The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2007 the present value of funded obligations amount to YTL 319,418 thousands and the fair value of the planned assets amount to YTL 469,931 thousands.

	<i>31 December</i> <u>2007</u>
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(363,087)
- Medical benefits transferable to SSF (obligation measured At the expected transfer amount)	43,669
Fair value of plan assets	<u>469,931</u>
Asset surplus in the plan (*)	<u>150,513</u>

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

Plan assets consist of the following:

	<i>31 December</i> <u>2007</u>
Securities	344,318
Land and buildings	113,165
Cash and due from banks	<u>12,448</u>
	<u>469,931</u>

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.

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.

The amounts recognized in the balance sheet are as follows:

	<i>31 December</i> <u>2007</u>
Present value of defined benefit obligation	(315,111)
Fair value of plan assets (*)	<u>150,513</u>
Liability in the balance sheet	<u>(164,598)</u>

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

The pension benefits are calculated annually by an independent actuary. In the accompanying interim financial statements, the pension liability calculated as of 31 December 2007 is preserved.

20 Other liabilities and accrued expenses (continued)

Expenses recognized regarding this benefit plan in the accompanying consolidated income statements for the six-month periods ended 30 June 2008 and 2007 are as follows:

	<u>30 June</u> <u>2008</u>	<u>30 June</u> <u>2007</u>
Total contribution payment	55,134	41,010
	<u>55,134</u>	<u>41,010</u>

Principal actuarial assumptions used at 31 December 2007, are as follows:

	<u>%</u>
Discount rate	16.77-10.17
Inflation	8-4.85
Future real salary increases	1.5
Medical cost trend rate	12.8-7.76
Future pension increases	8-4.85

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 is as follows:

<u>Assumption change</u>	<u>% change in defined benefit obligation</u>		
	<u>Pension Benefits</u>	<u>Medical Benefits</u>	<u>Overall</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Discount rate +1%	(9.3)	(13.2)	(11.9)
Discount rate -1%	11.3	16.8	14.9
Medical inflation +10% of CPI		9.9	6.4
Medical inflation -10% of CPI		(7.8)	(5.1)

Short-term employee benefits

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

	<u>30 June</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
Balance, beginning of the period	100,402	92,865
Payments during the period, net	(106,974)	(47,000)
Provision for the period, net	149,541	54,537
Balance, end of the period	<u>142,969</u>	<u>100,402</u>

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	<u>30 June</u> <u>2008</u>	<u>31 December</u> <u>2007</u>
Reserve for unearned premiums, net	43,605	25,188
<i>Gross</i>	46,030	26,858
<i>Reinsurers' share</i>	(2,425)	(1,670)
Provision for claims, net	5,771	4,882
<i>Gross</i>	5,919	5,022
<i>Reinsurers' share</i>	(148)	(140)
Life mathematical reserves	<u>69,767</u>	<u>71,080</u>
	<u>119,143</u>	<u>101,150</u>

20 Other liabilities and accrued expenses (continued)

Reserve for employee severance indemnity

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

	30 June	31 December
	<u>2008</u>	<u>2007</u>
Balance, beginning of the period	44,868	38,280
Disposal due to sale of consolidated affiliates	-	(592)
Payments during the period	(275)	(6,505)
Provision for the period	<u>332</u>	<u>13,685</u>
Balance, end of the period	<u>44,925</u>	<u>44,868</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 YTL 2,087.92 and YTL 2,030.19 at 30 June 2008 and 31 December 2007, respectively.

The principal actuarial assumptions are as follows:

	30 June	31 December
	<u>2008</u>	<u>2007</u>
	<u>%</u>	<u>%</u>
Discount rate	11.00	11.00
Expected rate of salary/limit increase (*)	5.00	5.00
Turnover rate to estimate the probability of retirement	5.81	5.81

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

Provision for non-cash loans

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

	30 June	31 December
	<u>2008</u>	<u>2007</u>
Balance, beginning of the period	32,142	21,038
Provision for the period, net	<u>7,034</u>	<u>11,104</u>
Balance, end of the period	<u>39,176</u>	<u>32,142</u>

21 Shareholders' equity

The authorized nominal share capital of the Bank amounted to YTL 2,100,000 thousands as of 30 June 2008.

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 YTL 3,876 thousands each in accordance with the report prepared by the court expert and approved by the Istanbul 5th Commercial Court of First Instance. A total payment of YTL 1,434,233 thousands has been made to the owners of 366 founder share-certificates from "retained earnings", and the value of remaining four 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.

21 Shareholders' equity (continued)

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 YTL 2,100,000 thousands from YTL 2,100,000 thousands to YTL 4,200,000 thousands. Accordingly, the pre-emptive rights on 210,000,000,000 shares with a total nominal value of YTL 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 YTL 5,525 thousands have been sold for the amount of YTL 17,405 thousands during the public offering on the ISE primary market. In the accompanying consolidated financial statements, the collections related with this capital increase amounting YTL 2,111,880 thousands are recorded under "capital reserves" as of 30 June 2008.

Doğuş Holding AŞ, signed an Agreement with GE on 24 August 2005 for the sale of 53.550.000.000 shares representing 25.5% of the Bank's issued share capital. Subsequent to receiving the necessary permission from BRSA, the transfer of the Bank's shares with nominal value of YTL 535,500 thousands representing 25.5% of the Bank's issued share capital and 182 of the founder shares from Doğuş Holding AŞ to GE Araştırma ve Müşavirlik Limited Şti., an investee company of GE Capital Corporation incorporated in Turkey, has been completed on 22 December 2005. Accordingly, on 22 December 2005 GE Araştırma ve Müşavirlik Limited Şti. made a total cash payment of US\$ 1,805,500 thousands to Doğuş Holding AŞ to purchase the shares of the Bank (having a nominal value of YTL 535,500 thousands) for US\$ 1,555,500 thousands and to purchase the Bank's 182 of the founder shares for US\$ 250,000 thousands. Subsequent to this sale in December 2005, a call was made to the Bank's minority shareholders by GE according to the paragraph 17 of the Article IV no.8 "Principles on Voting by Proxy at General Assembly and Gathering Proxy or Common Stock through Calls for Quoted Companies" of the Turkish Capital Market Board, starting from 27 March 2006 to purchase the shares with a total face value of YTL 1,564,500 at a price of YTL 3.90 per share from the minority shareholders. The call period ended on 10 April 2006 and the minority shareholders responded to this call by selling 6,249.49 shares with a face value of YTL 1 each. Accordingly, the shares owned by GE Araştırma ve Müşavirlik Limited Şti. increased to YTL 535,506 thousands. In December 2007, GE Capital Corporation ("GECC") has sold 9,765,000,000 non-trading shares of the Bank to Doğuş Holding AŞ, representing 4.65% of the issued share capital of the Bank. According to the agreement between the parties, the total consideration for the shares amounted to US\$ 674,250,000. The settlement of the transaction took place on 27 December 2007.

As per the resolution of the Board of Directors on 17 April 2007, the Bank paid dividends amounting YTL 219,319 thousands as of 24 April 2007.

As per the decision made at the Annual General Assembly at 3 April 2008, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to YTL 288,609 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.

21 Shareholders' equity (continued)

As at 30 June 2008 net minority interest amounts to YTL 28,650 thousands (31 December 2007: YTL 23,410 thousands). Minority interest is detailed as follows:

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</u>
Capital and other reserves	14,011	13,807
Retained earnings	9,399	1,625
Current period net income	<u>5,240</u>	<u>7,978</u>
	<u>28,650</u>	<u>23,410</u>

Unrealised (losses)/gains from changes in fair value of available-for-sale assets are detailed as follows:

	<i>30 June</i>	<i>31 December</i>
	<u>2008</u>	<u>2007</u>
Balance at the beginning of the period	189,382	122,562
Net unrealised gains/(losses) from changes in fair value	(676,780)	94,245
Related deferred and current income taxes	101,386	(17,201)
Net gains transferred to the income statement on disposal	(5,630)	(12,778)
Related deferred and current income taxes	<u>1,126</u>	<u>2,554</u>
Balance at the end of the period	<u>(390,516)</u>	<u>189,382</u>

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities amounting YTL 22,334 thousands that hedges the Bank's net investment in foreign operations. The financial liabilities designated as hedging instrument amount to EUR 196,614,575 and US\$ 28,274,282. The hedging relation is effective in achieving offsetting the changes in foreign currencies attributable to hedged item due to changes in foreign currency rates.

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).

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.

22 Fair value information (continued)

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 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 security investments. 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 YTL 49,070,856 thousands (31 December 2007: YTL 41,335,094 thousands), whereas the carrying amount is YTL 49,035,462 thousands (31 December 2007: YTL 41,042,495 thousands) in the accompanying consolidated balance sheet as at 30 June 2008.

Fair value of security investments is YTL 18,908,098 thousands (31 December 2007: YTL 17,831,767 thousands), whereas the carrying amount is YTL 18,955,353 thousands (31 December 2007: YTL 17,835,310 thousands) in the accompanying consolidated balance sheet as at 30 June 2008.

23 Commitments and contingencies

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

	<i>30 June</i>	<i>31 December</i>
	<i>2008</i>	<i>2007</i>
Letters of guarantee	10,305,824	9,769,546
Letters of credit	4,599,017	2,916,200
Acceptance credits	<u>116,954</u>	<u>116,487</u>
	<u>15,021,795</u>	<u>12,802,233</u>

As at 30 June 2008, commitment for uncalled capital of affiliated companies amounts approximately to YTL 812 thousands (31 December 2007: YTL 812 thousands).

As at 30 June 2008, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for “credit linked notes” amount approximately to YTL 15,752,306 thousands (31 December 2007: YTL 13,873,895 thousands) in total.

As at 30 June 2008, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to YTL 409,016 thousands (31 December 2007: YTL 353,992 thousands) in total.

23 Commitments and contingencies (continued)

As at 30 June 2008, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to YTL 21,008,529 thousands (31 December 2007: YTL 13,766,322 thousands), approximately 95% of which are due within a year.

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

	<i>30 June 2008</i>		<i>31 December 2007</i>	
	<i><u>Purchases</u></i>	<i><u>Sales</u></i>	<i><u>Purchases</u></i>	<i><u>Sales</u></i>
Forward agreements for customer dealing activities	273,067	325,815	50,339	197,577
Currency swap agreements for customer dealing activities	356,112	60,337	116,715	65,933
Options for customer dealing activities	867,330	278,434	286,686	123,307
Forward agreements for hedging purposes	318,348	323,028	492,871	148,688
Currency swap agreements for hedging purposes	9,513,993	1,598,587	4,276,502	2,551,561
Interest rate and credit default swap agreements	56,110	327,419	41,278	10,272
Interest rate, foreign currency and securities options	2,794,611	2,338,800	2,160,487	1,790,084
Forward rate agreements, foreign currency and interest rate futures	7,648	89,663	35,291	86,231
Forward agreements for gold trading	15,048	150,842	138,764	321,458
Spot foreign currency transactions	<u>795,534</u>	<u>517,803</u>	<u>470,994</u>	<u>401,284</u>
	<u>14,997,801</u>	<u>6,010,728</u>	<u>8,069,927</u>	<u>5,696,395</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 balance sheet date. 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 income statement, except for contracts of cash flow hedges as stated above. At 30 June 2008, approximately 116% of the net consolidated balance sheet foreign currency open position was hedged through the use of foreign currency contracts (31 December 2007: 105%).

23 Commitments and contingencies (continued)

<u>30 June 2008</u>	<i>Notional amount with remaining life of</i>					<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>						
Forward rate agreements	-	11,903	-	-	-	11,903
<i>Purchases</i>	-	6,131	-	-	-	6,131
<i>Sales</i>	-	5,772	-	-	-	5,772
Interest rate swaps	1,139	186	5,149	318,794	58,261	383,529
<i>Purchases</i>	1,059	93	2,741	8,024	44,193	56,110
<i>Sales</i>	80	93	2,408	310,770	14,068	327,419
Interest rate futures	-	1,515	-	-	-	1,515
<i>Purchases</i>	-	1,515	-	-	-	1,515
<i>Sales</i>	-	-	-	-	-	-
<u>Other Derivatives</u>						
Securities, shares and index options	123,022	150,112	91,689	-	-	364,823
<i>Purchases</i>	51,799	65,583	73,542	-	-	190,924
<i>Sales</i>	71,223	84,529	18,147	-	-	173,899
<u>Currency Derivatives</u>						
Spot exchange contracts	1,313,337	-	-	-	-	1,313,337
<i>Purchases</i>	795,534	-	-	-	-	795,534
<i>Sales</i>	517,803	-	-	-	-	517,803
Forward exchange contracts	742,601	325,872	95,010	76,775	-	1,240,258
<i>Purchases</i>	350,649	137,296	65,966	37,504	-	591,415
<i>Sales</i>	391,952	188,576	29,044	39,271	-	648,843
Currency/cross currency swaps	3,996,213	4,183,816	1,555,115	1,168,039	625,846	11,529,029
<i>Purchases</i>	3,599,715	3,847,999	1,353,322	595,218	473,851	9,870,105
<i>Sales</i>	396,498	335,817	201,793	572,821	151,995	1,658,924
Options	1,479,834	2,704,800	508,093	918,978	302,647	5,914,352
<i>Purchases</i>	984,019	1,550,684	322,715	463,456	150,143	3,471,017
<i>Sales</i>	495,815	1,154,116	185,378	455,522	152,504	2,443,335
Foreign currency futures	-	65,828	-	18,065	-	83,893
<i>Purchases</i>	-	2	-	-	-	2
<i>Sale</i>	-	65,826	-	18,065	-	83,891
Other foreign exchange contracts	165,890	-	-	-	-	165,890
<i>Purchases</i>	15,048	-	-	-	-	15,048
<i>Sale</i>	150,842	-	-	-	-	150,842
Subtotal Purchases	5,797,823	5,609,303	1,818,286	1,104,202	668,187	14,997,801
Subtotal Sales	2,024,213	1,834,729	436,770	1,396,449	318,567	6,010,728
Total of Transactions	7,822,036	7,444,032	2,255,056	2,500,651	986,754	21,008,529

23 Commitments and contingencies (continued)

<u>31 December 2007</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>						
Forward rate agreements	-	11,600	-	-	-	11,600
<i>Purchases</i>	-	5,800	-	-	-	5,800
<i>Sales</i>	-	5,800	-	-	-	5,800
Interest rate swaps	3,823	20,791	10,646	-	16,290	51,550
<i>Purchases</i>	136	20,709	6,483	-	13,950	41,278
<i>Sales</i>	3,687	82	4,163	-	2,340	10,272
Interest rate futures	-	4,000	-	-	-	4,000
<i>Purchases</i>	-	4,000	-	-	-	4,000
<i>Sales</i>	-	-	-	-	-	-
<u>Other Derivatives</u>						
Securities, shares and index options	353,634	99,202	494	5,930	-	459,260
<i>Purchases</i>	289,879	21,466	247	2,965	-	314,557
<i>Sales</i>	63,755	77,736	247	2,965	-	144,703
<u>Currency Derivatives</u>						
Spot exchange contracts	872,278	-	-	-	-	872,278
<i>Purchases</i>	470,994	-	-	-	-	470,994
<i>Sales</i>	401,284	-	-	-	-	401,284
Forward exchange contracts	532,844	115,692	103,503	127,388	10,048	889,475
<i>Purchases</i>	340,834	57,253	48,456	92,049	4,618	543,210
<i>Sales</i>	192,010	58,439	55,047	35,339	5,430	346,265
Currency/cross currency swaps	2,955,339	1,809,436	954,392	996,709	294,835	7,010,711
<i>Purchases</i>	1,922,009	381,845	914,373	902,390	272,600	4,393,217
<i>Sales</i>	1,033,330	1,427,591	40,019	94,319	22,235	2,617,494
Options	898,526	1,656,661	666,325	678,519	1,273	3,901,304
<i>Purchases</i>	514,866	858,823	390,316	367,338	1,273	2,132,616
<i>Sales</i>	383,660	797,838	276,009	311,181	-	1,768,688
Foreign currency futures	-	103,703	2,219	-	-	105,922
<i>Purchases</i>	-	23,272	2,219	-	-	25,491
<i>Sale</i>	-	80,431	-	-	-	80,431
Other foreign exchange contracts	460,222	-	-	-	-	460,222
<i>Purchases</i>	138,764	-	-	-	-	138,764
<i>Sale</i>	321,458	-	-	-	-	321,458
Subtotal Purchases	3,677,482	1,373,168	1,362,094	1,364,742	292,441	8,069,927
Subtotal Sales	2,399,184	2,447,917	375,485	443,804	30,005	5,696,395
Total of Transactions	6,076,666	3,821,085	1,737,579	1,808,546	322,446	13,766,322

24 Financial risk management disclosures

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

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

Risk management framework

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

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

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

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

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

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

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

24 Financial risk management disclosures (continued)

Audit Committee

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

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

Other Committees

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

24.1 Derivative financial instruments

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the balance sheet dates 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.

24 Financial risk management disclosures (continued)

Futures and forwards

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

Options

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

24.2 Trading activities

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

Counterparty credit risk

The Bank and its affiliates' counterparty credit exposure at the balance sheet date 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 balance sheet. 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.

24 Financial risk management disclosures (continued)

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

Market risk

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

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

24.3 Non-trading activities

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

Liquidity risk

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

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

24 Financial risk management disclosures (continued)

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 as of 30 June 2008 and 31 December 2007 are as follows:

	30 June 2008			
	<u>First Maturity Bracket (Weekly)</u>		<u>Second Maturity Bracket (Monthly)</u>	
	<u>FC</u>	<u>FC + YTL</u>	<u>FC</u>	<u>FC + YTL</u>
Average (%)	164.82	153.06	111.49	108.92
Maximum (%)	190.52	179.94	126.94	119.49
Minimum (%)	137.44	128.00	101.98	101.04
	31 December 2007			
	<u>First Maturity Bracket (Weekly)</u>		<u>Second Maturity Bracket (Monthly)</u>	
	<u>FC</u>	<u>FC + YTL</u>	<u>FC</u>	<u>FC + YTL</u>
Average (%)	205.49	188.04	127.36	123.78
Maximum (%)	251.92	212.33	147.16	130.54
Minimum (%)	158.32	148.21	112.59	116.03

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

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

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

	30 June 2008					31 December 2007						
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Total
MONETARY ASSETS												
<u>New Turkish Lira</u>												
Cash and balances with central banks	302,342	-	-	-	-	302,342	247,555	-	-	-	-	247,555
Financial assets at fair value through profit or loss	24,369	19,087	109,741	146,634	5,511	305,342	5,027	444	66,897	171,372	53	243,793
Loans and advances to banks	1,056,773	28,757	40,081	950,818	-	2,076,429	445,425	21,529	8,005	618,978	-	1,093,937
Loans and advances to customers	8,975,782	3,299,908	3,193,677	7,921,110	2,207,950	25,598,427	7,570,026	2,641,550	2,677,581	7,074,025	1,826,934	21,790,116
Accrued exchange gain on derivatives	36,613	41,213	42,462	2,223	-	122,511	12,614	16,045	15,892	9	-	44,560
Other assets	1,137,752	716,243	258	273	6,561	1,861,087	3,060,215	570,773	271	517	7,176	3,638,952
Security investments	432,888	458,345	1,534,605	11,966,681	615,228	15,007,747	10,938	-	2,256,804	10,417,932	635,931	13,321,605
Deferred tax asset	-	-	-	121,011	-	121,011	-	-	-	104,160	-	104,160
Total New Turkish Lira monetary assets	11,966,519	4,563,553	4,920,824	21,108,750	2,835,250	45,394,896	11,351,800	3,250,341	5,025,450	18,386,993	2,470,094	40,484,678
<u>Foreign currency</u>												
Cash and balances with central banks	1,710,166	-	-	-	-	1,710,166	2,627,424	-	-	-	-	2,627,424
Financial assets at fair value through profit or loss	84,490	36,620	167,008	239,564	24,694	552,376	78,375	42,743	212,973	384,817	41,317	760,225
Loans and advances to banks	1,451,944	254,144	982,537	310,673	612,953	3,612,251	1,857,168	203,966	890,071	439,082	564,817	3,955,104
Loans and advances to customers	1,480,056	2,622,210	5,043,945	7,341,106	6,859,491	23,346,808	1,036,142	2,470,824	4,564,376	6,384,323	4,713,002	19,168,667
Accrued exchange gain on derivatives	34,449	70,773	69,008	3,827	-	178,057	15,340	28,600	47,477	447	-	91,864
Other assets	2,106,851	5,748	5,373	3,790	16,728	2,138,490	1,951,008	1,153	4,276	5,209	18,644	1,980,290
Security investments	59,066	2,040	425,366	1,699,243	1,761,891	3,947,606	240,975	329,632	311,795	1,466,535	2,164,768	4,513,705
Deferred tax asset	-	-	-	5,765	-	5,765	-	-	-	312	-	312
Total foreign currency monetary assets	6,927,022	2,991,535	6,693,237	9,603,968	9,275,757	35,491,519	7,806,432	3,076,918	6,030,968	8,680,725	7,502,548	33,097,591
Total Monetary Assets	18,893,541	7,555,088	11,614,061	30,712,718	12,111,007	80,886,415	19,158,232	6,327,259	11,056,418	27,067,718	9,972,642	73,582,269
MONETARY LIABILITIES												
<u>New Turkish Lira</u>												
Deposits	19,977,294	1,154,512	182,271	171,626	-	21,485,703	17,835,682	1,870,749	323,928	165,968	-	20,196,327
Obligations under repurchase agreements	6,568,502	209,313	-	-	593,728	7,371,543	6,564,896	102,850	208,715	571,442	-	7,447,903
Loans and advances from banks	529,632	61,433	654,090	643,808	744,529	2,633,492	509,226	56,431	477,812	-	769,051	1,812,520
Bonds payable	-	-	-	-	-	-	-	-	-	-	-	-
Accrued exchange loss on derivatives	117,020	100,853	58,216	13,534	75,261	364,884	133,051	115,034	160,020	19,385	73,715	501,205
Other liabilities and accrued expenses	2,457,254	3,409	828,460	184,790	393,150	3,867,063	2,077,771	7,465	753,470	149,528	339,504	3,327,738
Total New Turkish Lira monetary liabilities	29,649,702	1,529,520	1,723,037	1,013,758	1,806,668	35,722,685	27,120,626	2,152,529	1,923,945	906,323	1,182,270	33,285,693
<u>Foreign currency</u>												
Deposits	22,051,604	2,079,617	2,346,772	506,861	106,291	27,091,145	18,870,026	2,381,424	1,772,037	459,264	91,762	23,574,513
Obligations under repurchase agreements	385,701	85,406	287,971	194,932	-	954,010	482,867	334,811	326,372	-	1	1,144,051
Loans and advances from banks	411,006	269,344	4,609,338	2,556,179	2,267,448	10,113,315	233,729	97,794	4,144,373	2,598,801	2,553,155	9,627,852
Bonds payable	-	-	-	56,998	-	56,998	-	-	-	-	50,912	50,912
Accrued exchange loss on derivatives	13,879	6,540	19,821	2,515	-	42,755	11,130	11,323	13,671	1,512	-	37,636
Other liabilities and accrued expenses	138,628	72,298	60,916	847	6,628	279,317	178,243	101,938	58,227	500	13,387	352,295
Total foreign currency monetary liabilities	23,000,818	2,513,205	7,324,818	3,318,332	2,380,367	38,537,540	19,775,995	2,927,290	6,314,680	3,060,077	2,709,217	34,787,259
Total Monetary Liabilities	52,650,520	4,042,725	9,047,855	4,332,090	4,187,035	74,260,225	46,896,621	5,079,819	8,238,625	3,966,400	3,891,487	68,072,952

24 Financial risk management disclosures (continued)

Market risk

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

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

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

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

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

Türkiye Garanti Bankası AŞ and Its Affiliates

Notes to Consolidated Financial Statements

As of and for the Six-Month Period Ended 30 June 2008

(Currency: Thousands of New Turkish Lira (YTL))

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

	30 June 2008						
	<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>
MONETARY ASSETS							
Cash and balances with central banks	517,931	-	-	-	-	1,494,577	2,012,508
Financial assets at fair value through profit or loss	46,826	74,080	248,439	244,373	26,752	217,248	857,718
Loans and advances to banks	2,470,655	562,334	2,060,696	120,994	-	474,001	5,688,680
Loans and advances to customers	14,236,698	8,721,651	11,983,973	10,604,380	2,693,569	704,964	48,945,235
Other assets	3,016,248	5,079	5,632	4,063	23,286	1,245,837	4,300,145
Security investments	1,789,742	6,325,538	3,117,350	5,714,662	1,122,400	885,661	18,955,353
Deferred tax asset	-	-	-	-	-	126,776	126,776
Total Monetary Assets	22,078,100	15,688,682	17,416,090	16,688,472	3,866,007	5,149,064	80,886,415
MONETARY LIABILITIES							
Deposits	32,180,971	3,185,090	2,597,530	437,696	12,603	10,162,958	48,576,848
Obligations under repurchase agreements	6,926,640	285,165	283,011	191,899	550,000	88,838	8,325,553
Loans and advances from banks	5,952,273	2,071,146	3,337,379	1,182,888	-	203,121	12,746,807
Bonds payable	-	56,988	-	-	-	10	56,998
Other liabilities and accrued expenses	-	-	-	-	-	4,554,019	4,554,019
Total Monetary Liabilities	45,059,884	5,598,389	6,217,920	1,812,483	562,603	15,008,946	74,260,225
31 December 2007							
	<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>
MONETARY ASSETS							
Cash and balances with central banks	604,243	-	-	-	-	2,270,736	2,874,979
Financial assets at fair value through profit or loss	35,842	23,475	266,567	398,794	43,292	236,048	1,004,018
Loans and advances to banks	2,054,701	668,022	1,740,440	216,729	-	369,149	5,049,041
Loans and advances to customers	10,030,868	7,471,831	8,941,276	11,234,086	2,738,142	542,580	40,958,783
Other assets	4,857,208	277	4,089	5,409	25,818	862,865	5,755,666
Security investments	1,929,196	5,969,508	1,920,240	5,351,812	1,564,721	1,099,833	17,835,310
Deferred tax asset	-	-	-	-	-	104,472	104,472
Total Monetary Assets	19,512,058	14,133,113	12,872,612	17,206,830	4,371,973	5,485,683	73,582,269
MONETARY LIABILITIES							
Deposits	28,866,948	4,229,547	2,147,768	479,126	6,744	8,040,707	43,770,840
Obligations under repurchase agreements	7,017,203	432,939	520,865	549,999	-	70,948	8,591,954
Loans and advances from banks	5,801,614	1,988,845	2,867,826	595,528	-	186,559	11,440,372
Bonds payable	-	50,903	-	-	-	9	50,912
Other liabilities and accrued expenses	-	-	-	-	-	4,218,874	4,218,874
Total Monetary Liabilities	41,685,765	6,702,234	5,536,459	1,624,653	6,744	12,517,097	68,072,952

24 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major balance sheet components for the first half of 2008 and the year of 2007:

	<i>30 June 2008</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>YTL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	2.60-5.00	3.00-4.62	11.21-20.90	8.45-9.75
Debt and other fixed or floating income instruments	0.57-6.72	4.00-6.80	17.33-19.18	3.75-3.75
Loans and advances to customers	2.80-14.00	4.00-15.45	16.00-31.71	2.62-16.00
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1.00-6.50	1.50-5.50	-	0.50-9.25
- Bank deposits	2.80-6.72	4.20-7.08	15.00-17.80	3.05-3.75
- Saving deposits	-	-	14.20-18.63	-
- Commercial deposits	-	-	14.20-19.23	-
- Public and other deposits	-	-	18.64	-
Obligations under repurchase agreements	3.03-5.82	4.11-5.25	16.92	-
Loans and advances from banks	3.18-6.05	5.10-6.45	14.06-21.53	1.00
	<i>31 December 2007</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>YTL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	4.23-5.51	3.70-6.27	16.00-21.58	8.45-9.70
Debt and other fixed or floating income instruments	2.25-12.39	1.05-10.63	10.00-20.78	3.50-5.25
Loans and advances to customers	4.83-13.00	4.00-10.79	16.45-30.82	2.31-16.00
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1.00-6.50	1.50-5.00	-	0.50-9.25
- Bank deposits	3.75-6.72	3.50-7.07	13.00-18.00	3.75-6.50
- Saving deposits	-	-	18.52-19.75	-
- Commercial deposits	-	-	18.99-19.75	-
- Public and other deposits	-	-	18.53	-
Obligations under repurchase agreements	5.06-5.83	4.11-5.06	15.44	-
Loans and advances from banks	5.27-6.22	4.91-5.85	13.66-18.38	1.85

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 balance sheet interest rate risk is monitored with methods such as static duration, gap and sensitivity analysis.

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

The consolidated value at market risks as of 30 June 2008 and 31 December 2007 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no.26333 dated 1 November 2006, are as follows:

	<u>30 June 2008</u>			<u>31 December 2007</u>		
	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Interest rates risk	2,806,683	3,624,888	1,197,599	1,457,766	1,708,025	1,197,599
Common share risk	144,792	200,888	50,527	13,707	50,527	25
Currency risk	181,960	218,375	155,075	225,605	323,780	117,662
Option risk	<u>199,700</u>	<u>302,738</u>	<u>129,550</u>	<u>120,536</u>	<u>221,950</u>	<u>44,248</u>
Total value at risk	<u>3,333,135</u>	<u>4,346,889</u>	<u>1,532,751</u>	<u>1,817,614</u>	<u>2,304,282</u>	<u>1,359,534</u>

Exposure to interest rate risk – non-trading portfolios

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

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

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

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

24 Financial risk management disclosures (continued)

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

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

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

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

Currency risk

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

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

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 income statement. 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:

	30 June 2008			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Assets</i>				
Cash and balances with central banks	1,163,381	489,429	57,356	1,710,166
Financial assets at fair value				
through profit or loss	448,049	76,486	27,841	552,376
Loans and advances to banks	2,837,891	703,684	70,676	3,612,251
Loans and advances to customers	13,737,025	8,845,415	751,554	23,333,994
Other assets	2,187,809	74,206	107,912	2,369,927
Security investments	3,552,832	324,685	70,089	3,947,606
Investments in equity participations	-	604	-	604
Tangible assets	1,318	82,871	7,586	91,775
Deferred tax asset	-	4,444	1,321	5,765
<i>Total Assets</i>	<u>23,928,305</u>	<u>10,601,824</u>	<u>1,094,335</u>	<u>35,624,464</u>
<i>Liabilities</i>				
Deposits	14,299,680	11,806,593	984,872	27,091,145
Obligations under repurchase agreements	821,735	132,275	-	954,010
Loans and advances from banks	6,929,888	3,182,515	912	10,113,315
Current and deferred tax liability	-	6,888	-	6,888
Bonds payable	-	56,998	-	56,998
Other liabilities and accrued expenses	128,971	155,233	30,980	315,184
<i>Total Liabilities</i>	<u>22,180,274</u>	<u>15,340,502</u>	<u>1,016,764</u>	<u>38,537,540</u>
<i>Net On Balance Sheet Position</i>	<u>1,748,031</u>	<u>(4,738,678)</u>	<u>77,571</u>	<u>(2,913,076)</u>
<i>Net Off Balance Sheet Position</i>	<u>(1,271,810)</u>	<u>4,510,690</u>	<u>132,111</u>	<u>3,370,991</u>
<i>Net Long/(Short) Position</i>	<u>476,221</u>	<u>(227,988)</u>	<u>209,682</u>	<u>457,915</u>
	31 December 2007			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Total Assets</i>	<u>19,997,523</u>	<u>12,332,912</u>	<u>899,188</u>	<u>33,229,623</u>
<i>Total Liabilities</i>	<u>21,291,440</u>	<u>12,500,267</u>	<u>995,552</u>	<u>34,787,259</u>
<i>Net On Balance Sheet Position</i>	<u>(1,293,917)</u>	<u>(167,355)</u>	<u>(96,364)</u>	<u>(1,557,636)</u>
<i>Net Off Balance Sheet Position</i>	<u>1,087,315</u>	<u>337,221</u>	<u>209,153</u>	<u>1,633,689</u>
<i>Net Long/(Short) Position</i>	<u>(206,602)</u>	<u>169,866</u>	<u>112,789</u>	<u>76,053</u>

24 Financial risk management disclosures (continued)

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

The balance sheet short positions 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 YTL equivalents, is a net asset of YTL 138,076 thousands at 30 June 2008 (31 December 2007: YTL 100,038 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 balance sheet. 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 balance sheet. 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>	
	<i>30 June 2008</i>	<i>31 December 2007</i>
Individually impaired	993,727	869,567
Allowance for impairment	(746,900)	(632,050)
Carrying amount	<u>246,827</u>	<u>237,517</u>
Collectively impaired	-	-
Allowance for impairment	(156,600)	(153,805)
Carrying amount	<u>(156,600)</u>	<u>(153,805)</u>
Past due but not impaired	1,167,541	-
Carrying amount	<u>1,167,541</u>	<u>-</u>
Neither past due nor impaired	47,728,160	40,893,267
Loans with renegotiated terms	49,534	65,516
Carrying amount	<u>47,777,694</u>	<u>40,958,783</u>
Total carrying amount	<u>49,035,462</u>	<u>41,042,495</u>

As of 30 June 2008 and 31 December 2007, the Bank has no allowance for loans and advances to banks.

Impaired loans

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

Sectoral and geographical concentration of impaired loans

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

	<i>30 June 2008</i>	<i>31 December 2007</i>
Consumer loans	613,118	567,485
Textile	87,017	76,513
Chemistry and chemical products	58,240	52,468
Food	35,222	23,906
Construction	32,766	21,707
Service sector	23,957	22,747
Durable consumption	14,123	12,153
Agriculture and stockbreeding	13,461	9,845
Metal and metal products	12,952	11,510
Financial institutions	6,978	8,067
Others	<u>95,893</u>	<u>63,166</u>
Total non-performing loans and lease receivables	<u>993,727</u>	<u>869,567</u>

24 Financial risk management disclosures (continued)

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Turkey	983,339	864,349
Russia	6,293	1,136
Holland	1,820	2,752
Germany	912	808
Others	<u>1,363</u>	<u>522</u>
Total non-performing loans and lease receivables	<u>993,727</u>	<u>869,567</u>

Past due but not impaired loans

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

Allowances for impairment

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

Write-off policy

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

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2008 and 31 December 2007.

Approximately 70% 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 82%.

24 Financial risk management disclosures (continued)

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

	<i><u>30 June</u></i> <i><u>2008</u></i>	<i><u>31 December</u></i> <i><u>2007</u></i>
<i>Cash loans</i>		
Secured loans:	<u>33,915,394</u>	<u>30,012,228</u>
Secured by cash collateral	1,083,055	1,173,952
Secured by mortgages	11,396,314	7,835,589
Secured by government institutions or government securities	1,817,346	1,457,954
Guarantees issued by financial institutions	191,639	186,359
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	19,427,040	19,358,374
Unsecured loans	<u>14,324,877</u>	<u>10,403,163</u>
Total performing loans and financial lease receivables	<u>48,240,271</u>	<u>40,415,391</u>
<i>Non-cash loans</i>		
Secured loans:	<u>12,267,134</u>	<u>10,137,914</u>
Secured by cash collateral	608,917	496,168
Secured by mortgages	1,248,450	173,903
Guarantees issued by financial institutions	5,030	3,766
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	10,404,737	9,464,077
Unsecured loans	<u>2,754,661</u>	<u>2,664,319</u>
Total non-cash loans	<u>15,021,795</u>	<u>12,802,233</u>

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

	<i><u>30 June</u></i> <i><u>2008</u></i>	<i><u>31 December</u></i> <i><u>2007</u></i>
Promissory notes and surety	223,327	166,330
Mortgages	210,978	174,647
Pledge assets	107,423	89,083
Cash collateral	191	355
Unsecured	<u>451,808</u>	<u>439,152</u>
	<u>993,727</u>	<u>869,567</u>

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

Operational risks

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

24 Financial risk management disclosures (continued)

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

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

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

Capital management – regulatory capital

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

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

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

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

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

24 Financial risk management disclosures (continued)

The Bank's and its affiliates' regulatory capital position on a consolidated basis at 30 June 2008 and 31 December 2007 was as follows:

	<i>30 June</i> <u>2008</u>	<i>31 December</i> <u>2007</u>
Tier 1 capital	8,649,793	6,926,311
Tier 2 capital	707,283	1,069,119
Deductions from capital	<u>(440,171)</u>	<u>(488,448)</u>
Total regulatory capital	<u>8,916,905</u>	<u>7,506,982</u>
Value at credit, market and operational risks	<u>66,897,219</u>	<u>53,708,544</u>
<u>Capital ratios (%)</u>		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	13.33	13.98
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	12.93	12.90

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.

The Bank has entered into various interest rate swap transactions in order to hedge its certain cash flow exposures primarily on floating rate assets and liabilities, through converting its floating rate income/payments into fixed rate income/payments. The following table includes certain characteristics of these swap transactions:

<i>Notional amount</i>	<i>Fixed payer rate (%)</i>	<i>Floating payer rate (%)</i>	<i>Fixed payment frequency</i>	<i>Maturity</i>
US\$ 72.9 millions	5.445	3 month Libor + 1.75	Quarterly	2009
US\$ 110 millions	3.35	3 month Libor + 0.40	Quarterly	2012
EUR 50 millions	5.12	12 month Euribor + 1.00	Annually	2013

On 9 January 2008 and 16 January 2008, the Bank has exercised four interest rate swap transactions held for cash flow risk management before their maturities. The Bank has recognized a total income amounting US\$ 38,670,000 (equivalent of YTL 45,002 thousands) collected on the dates of these transactions as per the related agreements under trading income in the accompanying consolidated financial statements.

25 Affiliates and associates

The table below sets out the Affiliates and shows their shareholding structure as at 30 June 2008:

<u>Affiliates</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 Kültür AŞ (a)	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 (b)	-

(a) The legal name of Galata Araştırma Yayıncılık Tanıtım ve Bilişim Teknoloji Hizmetleri AŞ has been changed as Garanti Kültür AŞ at 8 February 2008.

(b) Garanti Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions explained in Note 17. The Bank or any of its affiliates does not have any shareholding interest in this company.

As per the agreement signed with Eureko BV on 21 June 2007, the Bank sold its 80% share in Garanti Sigorta AŞ and its 15% share in Garanti Emeklilik ve Hayat AŞ to this company. Upon this sale, a gain of YTL 703,803 thousands is recognized in the consolidated financial statements as of 31 December 2007. As part of the sale transactions mentioned above, the Bank has a sale option on the remaining shares of Garanti Sigorta AŞ and Eureko BV has purchase and sale options on the shares of Garanti Emeklilik ve Hayat AŞ. Subsequent to these sales, at 1 October 2007 the legal name of Garanti Sigorta AŞ has been changed as Eureko Sigorta AŞ.

Garanti Fund Management Co. Ltd. (100.00%) is under liquidation as of the reporting date. The liquidation procedures are expected to complete in 2008.

Garanti Financial Services plc (100.00%) is under liquidation as of the reporting date. The liquidation procedures are expected to complete in 2009.

26 Net fee and commission income

	<i>Six-month period ended 30 June 2008</i>	<i>Three-month period ended 30 June 2008</i>	<i>Six-month period ended 30 June 2007</i>	<i>Three-month period ended 30 June 2007</i>
<i>Fee and commission income:</i>				
Credit cards fees	496,850	258,849	440,311	231,972
Retail banking	169,798	77,556	129,357	58,291
SME banking	98,847	48,367	65,792	32,238
Commercial banking	75,715	42,572	57,042	30,084
Corporate banking	37,466	20,542	40,140	22,699
Others	<u>116,033</u>	<u>52,818</u>	<u>95,951</u>	<u>49,517</u>
Total fee and commission income	<u>994,709</u>	<u>500,704</u>	<u>828,593</u>	<u>424,801</u>
<i>Fee and commission expense:</i>				
Credit cards fees	150,848	80,867	149,799	82,364
Retail banking	10,362	10,049	1,027	432
SME banking	2,444	2,267	583	245
Commercial banking	368	307	201	86
Others	<u>34,345</u>	<u>16,821</u>	<u>51,617</u>	<u>27,004</u>
Total fee and commission income	<u>198,367</u>	<u>110,311</u>	<u>203,227</u>	<u>110,131</u>
Net fee and commission income	<u>796,342</u>	<u>390,393</u>	<u>625,366</u>	<u>314,670</u>

Commissions received for cash loans amounting YTL 52,889 thousands are classified to “interest income on loans” and commissions paid for borrowings amounting YTL 13,368 thousands are classified to “interest expense on borrowings and obligations under repurchase agreements” as of 30 June 2007.

27 Other expenses

	<i>Six-month period ended 30 June 2008</i>	<i>Three-month period ended 30 June 2008</i>	<i>Six-month period ended 30 June 2007</i>	<i>Three-month period ended 30 June 2007</i>
Credit card rewards and promotion expenses	125,209	70,142	55,306	29,971
Advertising expenses	47,975	29,525	52,359	37,697
EDP expenses	39,171	17,578	32,571	20,036
Taxes and duties other than on income	33,752	17,782	25,836	13,498
Saving deposits insurance fund	28,257	14,354	23,301	11,942
Utility expenses	20,376	9,009	14,382	7,262
Foreign exchange losses, net	-	(6,913)	-	-
Research and development expenses	6,570	3,951	7,866	3,759
Repair and maintenance expenses	11,154	7,002	10,202	6,369
Others	<u>170,108</u>	<u>102,188</u>	<u>139,645</u>	<u>69,298</u>
	<u>482,572</u>	<u>264,618</u>	<u>361,468</u>	<u>199,832</u>

Due to method change in valuation of derivative instruments, YTL 210,312 thousands and YTL 140,257 thousands are reclassified from “trading account gains/(losses)” to “foreign exchange gains/(losses)” for the six-month and three-month periods ended 30 June 2007, respectively.

28 Use of estimates and judgements

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

Key sources of estimation uncertainty

Allowances for credit losses

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (i) *Financial instruments*.

28 Use of estimates and judgements (continued)

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

Securitizedizations

In applying its policies on securitized 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 balance sheet.
- 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 balance sheet.
- 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 balance sheet.

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

29 Significant events

- The Bank had called off its existing legal cases against Boğaziçi Corporations Tax Office related with the final and interim corporate tax returns of the years from 2001 to 2005 and settled up with the related tax authority as per the article 3 of the Law No.5736 "Collection of Certain Public Sector Receivables through Conciliation" published in the Official Gazette No.26800 dated 27 February 2008. Accordingly, after making revisions to the corporate tax returns of the period from 2001 to 2005, the tax refund that the Bank will collect through conciliation from the tax office, due to the prepaid taxes in 2005 is agreed to be YTL 131,178 thousands. Furthermore, the Bank is also entitled to a tax refund on an existing unused investment incentive certificate amounting YTL 6,078 thousands.
- A part of the Bank's non-performing loan portfolio amounting YTL 98,221 thousands is sold to a local asset management company at a sale price of YTL 28,898 thousands. The sale price is fully recognized as income as of 3 April 2008, as the sold receivables were fully provisioned in the Bank's financial statements previously.

29 Significant events (continued)

- During the general assembly meeting of Garanti Faktoring Hizmetleri AŞ held at 16 April 2008, it has been decided to increase the share capital of the company from YTL 16,849 thousands to YTL 17,960 thousands by YTL 1,111 thousands through appropriation from the 2007 net income reported in the financial statements prepared in accordance with IFRS as per the Article XI no.25 of the Capital Market Board, and accordingly to issue bonus shares for this amount and to transfer the remaining earnings to reserves.
- Social Security Law No. 5754 which requires the transfer of the liabilities of the members of “Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı” (“the Fund”) established as per the temporary article no. 20 of the Social Security Law No. 506 is accepted and approved by the Turkish Parliament at 17 April 2008 and enacted at 8 May 2008.

30 Subsequent event

Following the BRSA’s examination on the Bank’s capital increase process explained in Note 21, the capital increase is approved by the Istanbul Commercial Registry at 31 July 2008, and accordingly YTL 2,100,000 thousands of the cash collected is transferred to “share capital” and the excess balance amounting YTL 11,880 thousands over the nominal values of new shares issued to “share premium”.

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