YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED FINANCIAL STATEMENTS TOGETHER WITH AUDITOR'S REPORT

31 DECEMBER 2009

INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated financial statements of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

4. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zeynep Uras, SMMM
Partner

Istanbul, 23 March 2010

YAPI VE KREDİ BANKASI A.Ş.

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YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

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

	Note	2009	2008
ASSETS			
Cash and balances with central banks	6	4,229,335	4,717,016
Loans and advances to banks	7	3,796,084	3,310,548
Financial assets held for trading			
- Trading securities	8	365,923	396,464
- Trading derivatives	9	617,704	433,651
Loans and advances to customers		42,137,597	42,469,983
Hedging derivatives	10	128,631	-
Investment securities			
- Available-for-sale	11	2,054,256	1,886,091
- Held-to-maturity	11	13,318,719	12,705,781
Investment in associate	12	58,939	55,593
Goodwill	13	1,023,528	1,023,528
Other intangible assets	14	216,441	179,697
Property and equipment	15	1,156,183	1,215,588
Deferred income tax assets	22	771,084	509,850
Other assets	16	1,149,887	989,504
Total assets		**71,024,311**	**69,893,294**
LIABILITIES			
Deposits from banks	17	2,432,179	1,082,841
Due to customers	18	42,181,386	43,725,847
Other borrowed funds	19	8,631,136	9,652,438
Debt securities in issue	20	1,744,478	1,966,298
Derivative financial instruments	9	268,515	220,782
Financial liabilities designated at fair value	21	-	66,434
Current income taxes payable	22	69,036	8,339
Deferred income tax liabilities		288,294	201,922
Hedging derivatives	22	357,613	-
Other provisions	23	397,871	377,235
Retirement benefit obligations	24	964,541	869,255
Insurance technical reserves	25	866,804	835,200
Other liabilities	26	4,116,055	3,847,688
Total liabilities		**62,317,908**	**62,854,279**
EQUITY			
Share capital and share premium	28	4,822,259	4,822,259
Other reserves	29	235,993	107,598
Retained earnings	29	3,594,934	2,065,235
Equity attributable to shareholders of the Parent		**8,653,186**	**6,995,092**
Equity attributable to minority interest		53,217	43,923
Total equity		**8,706,403**	**7,039,015**
Total liabilities and equity		**71,024,311**	**69,893,294**

The accompanying notes set out on pages 6 to 89 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

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

	Note	2009	2008
Interest income	30	7,635,542	7,736,732
Interest expense	30	(3,801,028)	(5,067,988)
Net interest income		**3,834,514**	**2,668,744**
Fee and commission income	31	2,076,219	1,839,536
Fee and commission expense	31	(351,523)	(334,276)
Net fee and commission income		**1,724,696**	**1,505,260**
Foreign exchange gains, net		130,623	106,278
Net trading, hedging and fair value income	32	118,678	38,198
Gains / losses from investment securities, net	32	33,225	(35,574)
Insurance technical income, net		22,532	80,225
Other operating income		129,680	191,882
Operating income		**5,993,948**	**4,555,013**
Impairment losses on loans and credit related commitments, net	34	(1,616,526)	(423,218)
Provision for retirement benefit obligations	24	(110,302)	(83,674)
Other provisions	23	(185,462)	(253,158)
Other operating expenses	33	(2,189,061)	(2,112,246)
Operating profit		**1,892,597**	**1,682,717**
Share of profit of associate	12	5,417	3,667
Profit before income tax		**1,898,014**	**1,686,384**
Income tax expense	22	(305,946)	(316,416)
Profit for the year		**1,592,068**	**1,369,968**
Attributable to:			
Equity holders of the Bank		1,581,830	1,366,260
Minority interest		10,238	3,708
		1,592,068	**1,369,968**
Basic earning per share attributable to the equity holders of the Bank (expressed in TL per thousand share)		3.64	3.94

The accompanying notes set out on pages 6 to 89 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

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

	Note	2009	2008
Profit for the year		**1,592,068**	**1,369,968**
Exchange differences on translation of foreign operations		256	103,970
Net gains on available-for-sale financial assets			
- Unrealised net gains arising during the period, before tax		82,652	8,062
- Net reclassification adjustments for realised net losses, before tax		(4,167)	(13,487)
Net investment hedges			
- Net losses arising on hedges recognised in other comprehensive income, before tax		(2,941)	(71,800)
- Net amount reclassified to the income statement, before tax		-	-
Income tax relating to components of other comprehensive income	**22**	**958**	**10,354**
Other comprehensive income for the year, net of tax		**76,758**	**37,099**
Total comprehensive income for the year		**1,668,826**	**1,407,067**
Total comprehensive income attributable to:			
Equity holders of the parent entity (total)		1,658,094	1,403,101
Minority interests (total)		10,732	3,966

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

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

		Attributable to equity holders of the Bank						
	Note	Share capital	Share premium	Other Reserves	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2008		**3,366,580**	**533,431**	**43,839**	**829,603**	**4,773,453**	**293,221**	**5,066,674**
Net change in available for sale investments, net of tax	29	-	-	(9,689)	-	(9,689)	258	(9,431)
Gains on hedges of a net investment in a foreign operation	29	-	-	(57,440)	-	(57,440)	-	(57,440)
Currency translation differences		-	-	103,970	-	103,970	-	103,970
Net income recognised directly in equity		-	-	36,841	-	36,841	258	37,099
Profit for the year		-	-	-	1,366,260	1,366,260	3,708	1,369,968
Total recognised income for the year		-	-	36,841	1,366,260	1,403,101	3,966	1,407,067
Issue of share capital		920,000	2,248	-	(1,844)	920,404	-	920,404
Dividends paid		-	-	-	-	-	(1,450)	(1,450)
Transfer to statutory reserves		-	-	26,930	(26,930)	-	-	-
Purchase from minority interests	27	-	-	(12)	(101,854)	(101,866)	(251,814)	(353,680)
Balance at 31 December 2008		**4,286,580**	**535,679**	**107,598**	**2,065,235**	**6,995,092**	**43,923**	**7,039,015**
Net change in available for sale investments, net of tax	29	-	-	78,361	-	78,361	494	78,855
Gains on hedges of a net investment in a foreign operation	29	-	-	(2,353)	-	(2,353)	-	(2,353)
Currency translation differences		-	-	256	-	256	-	256
Net income recognised directly in equity		-	-	76,264	-	76,264	494	76,758
Profit for the year		-	-		1,581,830	1,581,830	10,238	1,592,068
Total recognised income for the year		-	-	76,264	1,581,830	1,658,094	10,732	1,668,826
Dividends paid		-	-	-	-	-	(1,438)	(1,438)
Transfer to statutory reserves		-	-	52,131	(52,131)	-	-	-
Balance at 31 December 2009		**4,286,580**	**535,679**	**235,993**	**3,594,934**	**8,653,186**	**53,217**	**8,706,403**

The accompanying notes set out on pages 6 to 89 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	2009	2008
Cash flows from operating activities			
Net profit		1,592,068	1,369,968
Adjustments for:			
Unrealised gain on financial assets held for trading, net		(12,835)	10,861
Allowances for losses on loans and advances	34	1,616,526	423,218
Measurement of derivative financial instruments at fair value		92,662	(427,324)
Share of profit of associate	12	(5,417)	(3,667)
Amortisation of other intangible assets	33	38,296	40,577
Depreciation of property and equipment	33	145,629	126,239
Impairment charge on property and equipment, net	33	(3,888)	1,841
Impairment charge on assets held for resale	33	-	522
Provision for current and deferred income taxes	22	305,946	316,416
Other provisions	23	185,462	253,158
Provision for retirement benefit obligations	24	110,302	83,674
Other liabilities		(7,246)	16,572
Unearned commission income		(19,024)	33,241
Dividend income		(3,403)	(41,553)
Interest income - net	30	(3,834,514)	(2,668,744)
Interest paid		(4,036,179)	(4,932,679)
Interest received		7,871,848	7,229,845
Translation difference	29	(2,097)	46,518
Other non-cash items		(139,746)	(221,222)
Cash flows from operating profits before changes in operating assets and liabilities		**3,894,390**	**1,657,461**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		318,671	(454,446)
Net decrease / (increase) in loans and advances to banks		1,043,986	(633,039)
Net decrease / (increase) in trading securities		7,901	(91,795)
Net (increase) in loans and advances to customers		(1,383,655)	(10,518,233)
Net (increase) in other assets		(307,345)	(18,506)
Net increase / (decrease) in deposits from banks		1,133,647	(307,505)
Net (decrease) / increase in due to customers		(1,379,018)	9,118,115
Net increase / (decrease) in other liabilities and provisions		147,873	(218,820)
Income taxes paid		(147,586)	(236,878)
Net cash from / (used in) operating activities		**3,328,864**	**(1,703,646)**
Cash flows from investing activities			
Purchase of property and equipment	15	(122,275)	(189,967)
Proceeds from the sale of property and equipment	15	39,876	26,792
Purchase of intangible assets, net	14	(75,321)	(36,992)
Purchase / increase in held-to-maturity securities	11	(1,937,939)	(2,164,454)
Redemption of held-to-maturity securities	11	1,139,115	1,882,322
Redemption / (purchase) of available-for-sale securities, net		(163,727)	(773,076)
Dividends received		3,403	41,553
Disposal of investments, net		24,074	(6,373)
Net cash (used in) investing activities		**(1,092,794)**	**(1,220,195)**
Cash flows from financing activities			
Proceeds from borrowed funds, net		(742,159)	2,886,674
Issue of ordinary shares		-	922,248
Dividend paid to minority		(1,438)	(1,450)
Net cash from financing activities		**(743,597)**	**3,807,472**
Net increase in cash and cash equivalents		**1,492,473**	**883,631**
Effects of foreign exchange-rate changes on cash and cash equivalents		32,709	632,517
Cash and cash equivalents at beginning of the year	5	3,553,244	2,037,096
Cash and cash equivalents at end of the year	**5**	**5,078,426**	**3,553,244**

The accompanying notes set out on pages 6 to 89 form an integral part of these consolidated financial statements.

NOTE 1 - GENERAL INFORMATION

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

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

The Bank’s shares have been traded on the Istanbul Stock Exchange (“ISE”) since 1987. As of 31 December 2009 18.20% shares of the Bank are publicly traded (2008: 18.20%). The Bank’s publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on London Stock Exchange.

At 31 December 2009, the Group has 16,713 employees (2008: 17,359 employees). The Bank has 837 branches operating in Turkey and 1 branch in off-shore region (2008: 860 branches operating in Turkey, 1 branch in off-shore region) and 14,333 employees (2008: 14,795 employees).

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

These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009

- *Amendments to IFRS 7, 'Financial instruments: Disclosures'*

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

- *IFRS 8, 'Operating segments'*

IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group.

- *IAS 1 (revised), 'Presentation of financial statements'*

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group’s accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement – eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- *IFRS 1 and IAS 27, ‘Cost of an investment in a subsidiary, jointly-controlled entity or associate’*

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

- *IFRS 3, ‘Business combinations’*

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed.

- *IAS 27, ‘Consolidated and separate financial statements’*

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'*

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. Currently, these changes are not relevant for the Group's consolidated financial statements.

- *IFRIC 17, 'Distribution to non-cash assets to owners'*

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Currently, these changes are not relevant for the Group's consolidated financial statements.

- *IFRS 9, 'Financial instruments part 1: Classification and measurement'*

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. However, European Financial Reporting Advisory Group has not endorsed IFRS 9 yet.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

(c) Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Consolidation

(a) Subsidiaries

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

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

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

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

The list of principal subsidiaries at 31 December 2009 and 2008 is as follows:

			2009		2008	
Name of subsidiary	**Country of incorporation**	**Nature of business**	**Control rates (%)**	**Effective rates (%)**	**Control rates (%)**	**Effective rates (%)**
Yapı Kredi Leasing	Turkey	Leasing	98.85	98.85	98.85	98.85
Yapı Kredi Faktoring	Turkey	Factoring	99.96	99.96	99.96	99.96
Yapı Kredi Portföy	Turkey	Portfolio management	99.97	99.95	99.97	99.95
Yapı Kredi Menkul (Note 27)	Turkey	Investment management	99.98	99.98	99.98	99.98
Yapı Kredi Yatırım Ortaklığı A.Ş.	Turkey	Portfolio management	56.07	56.06	56.07	56.06
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance	93.94	93.94	93.94	93.94
Yapı Kredi Emeklilik A.Ş.	Turkey	Insurance	100.00	93.94	100.00	93.94
Yapı Kredi NV (Note 27)	Netherlands	Banking	100.00	100.00	100.00	100.00
Stiching Custody Services YKB	Netherlands	Custody Services	100.00	100.00	100.00	100.00
Yapı Kredi Bank Moscow	Russia	Banking	100.00	100.00	100.00	100.00
Yapı Kredi Bank Holding B.V.	Netherlands	Financial Holding	100.00	100.00	100.00	100.00
Yapı Kredi Azerbaijan	Azerbaijan	Banking	100.00	100.00	100.00	100.00
Yapı Kredi Invest LLC	Azerbaijan	Investment management	100.00	100.00	100.00	100.00
Enternasyonel Turizm Yatırım A.Ş. ("Enternasyonel") (1)	Turkey	Investment	99.99	99.96	99.99	99.96
Yapı Kredi Koray G.Y.O.A.Ş. ("Yapı Kredi Koray") (1)	Turkey	Real estate	30.45	30.45	30.45	30.45
Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-san") (1)	Turkey	Agricultural chemicals	100.00	99.99	100.00	99.99
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş. (1)	Turkey	Culture / art publications	100.00	99.99	100.00	99.99
Yapı Kredi Diversified Payment Rights Finance Co. (2)	Cayman Islands	Special Purpose Company ("SPC")				

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Associates

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

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

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

The details of the associate at 31 December 2009 and 2008 are as follows:

				2009		2008	
Name of associate	**Country of incorporation**	**Nature of business**	**Original currency**	**Control rate (%)**	**Effective rate (%)**	**Control rate (%)**	**Effective rate (%)**
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF	30.67	30.67	30.67	30.67

(c) Transactions and minority interests

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

(d) Fund management

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

C. Foreign currency translation

(a) Functional and presentation currency

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

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

D. Related parties

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

E. Due from other banks

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

G. Investment securities

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

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

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Sale and repurchase agreements

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

I. Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost less allowance for impairment. When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

The Group holds appropriate collateral for each loan according to its specified risk and the relevant BRSA communiqués. The collateral strategy differentiates between collateral types on the basis of customers' ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Under-secretariat and Central Bank and pledge on assets.

J. Impairment of financial assets carried at amortised cost

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

K. Derivative financial instruments

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

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. The fair value of over-the-counter ("OTC") forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2009. The difference between the spot rate at the time of origination and the original forward rate (for matured contracts) and the original forward rate discounted to balance sheet date (for outstanding contracts) is reclassified to interest income or expense.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 if it is a financial instrument, and in accordance with other appropriate standards if it is not a financial instrument. IAS 39 does not address whether an embedded derivative shall be presented separately on the face of the financial statements.

L. Hedge accounting

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

Net investment hedge

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

Fair value hedge

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

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

M. Property and equipment

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Leasehold improvements comprise primarily the capitalised branch refurbishment costs.

N. Other intangible assets

(i) Computer software

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

(ii) Trademarks and customer relationships related intangibles

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

(iii) Other intangible assets

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Accounting for leases

(i) Group company is the lessor

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

(ii) Group company is the lessee

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

P. Business combinations and goodwill

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

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

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

Q. Business combinations involving entities under common control

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

R. Impairment of assets

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

S. Financial liabilities

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

T. Income taxes

(i) Income taxes currently payable

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(ii) Deferred income taxes

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

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

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

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

U. Retirement benefit obligations

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

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

	2009		2008	
	Employer (%)	**Employee (%)**	**Employer (%)**	**Employee (%)**
Retirement benefit contributions	12	9	13.5	9
Medical benefit contributions	7.5	5	6	5

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Reserve for employment termination benefits

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

V. Provisions, contingent assets and contingent liabilities

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

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

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

Uncertain tax positions

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

W. Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

X. Fee and commission income and expense

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

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

Y. Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

Z. Acceptances

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

AA. Other credit related commitments

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AB. Offsetting

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

AC. Cash and cash equivalents

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

AD. Insurance business

(i) Premium Income

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

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

(ii) Claims

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

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

(iii) Unearned Premium Reserve ("UPR")

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

(iv) Deferred Acquisition Costs ("DAC")

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Life Mathematical Reserves

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

(vi) Life Profit Share Reserve

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

(vii) Provision for Unexpired Risks:

Adequacy of UPR is tested by considering net incurred claims to net earned premiums ratio for the last calendar year based on existing contracts on branch basis. If the calculated loss ratio is higher than 95%, provision for unexpired risk is accounted for by multiplying net unearned premium reserve with the portion exceeding 95%.

(viii) Liability Adequacy Test

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

(ix) Liability to Pension Contract holders for Loyalty Reward

The Group's subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group's subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. Loyalty criteria is "till retirement" instead of "10 years" for the contracts issued after 9 August 2008. The present value of such liability is calculated using the long term real interest rate of 5.92% and the persistency rate of pension contract holders.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AE. Segment Reporting

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

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

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

AF. Earnings per share

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

	2009	**2008**
Profit attributable to equity holders of the Bank	1,581,830	1,366,260
Weighted average number of ordinary shares in issue (thousand)	434,705,128	346,538,433
Basic earning per share (expressed in TL per 1,000 share)	**3.64**	**3.94**

AG. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the 31 December 2009 consolidated financial statements.

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

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by TL663,481 thousand (2008: increase by TL223,331 thousand), with a corresponding entry in the fair value reserve in equity (Note 4.E).

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

Impairment losses on loans and advances. The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated TL124,489 thousand (2008: TL58,239 thousand) higher or lower. The Group calculated IBNR provision which combines the Basel II concept of expected loss with intrinsic elements such as loss detection period and expert views. As a result of the studies performed, the Bank revised the IBNR provisions by considering new loss detection periods, which were formerly set as 1 year, differentiating them by segment/type of products. To the extent that loss detection period decreases by 3 months, the IBNR provision would be estimated around TL216,000 thousand (2008: TL164,000 thousand) lower.

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

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

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

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

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

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk

The Group manages credit risk through the following implementations:

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

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

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

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

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

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

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

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

Bank Rating System:

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

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

The Bank's rating tool concentration by risk classes as of 31 December 2009 and 2008 is as follows:

		Concentration level (%)	
	Rating class [1]	**2009**	**2008**
Above average	1-4	30.3	32.7
Average	5+ - 6	47.9	48.3
Below average	7+ - 9	21.8	19.0

(1) For corporate and commercial clients only

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

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

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

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

Group's Rating	**Loans and advances %**	**Provision Coverage %**
1. Performing loans - neither past due nor impaired	88.03	1.54
2. Watch-listed - individually impaired	5.71	8.03
3. Legal follow-up - individually impaired	6.26	80.62
	100.00	**6.86**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

	31 December 2009				31 December 2008			
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total
Corporate	770,430	67,761	1,414,857	2,253,048	520,891	165,170	40,346	726,407
Consumer	451,145	197,350	164,609	813,104	388,553	197,616	52,997	639,166
Credit cards	599,665	190,055	221,445	1,011,165	496,932	275,635	119,273	891,840
Leasing	10,398	1,006	1,205	12,609	12,620	9,748	598	22,966
	1,831,638	**456,172**	**1,802,116**	**4,089,926**	**1,418,996**	**648,169**	**213,214**	**2,280,379**

Loans and Advances Rescheduled:

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

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

On the other hand, if restructuring is applied for loans in nonperforming loan accounts that loan will continue to stay at least 6 more months in nonperforming loan accounts and it may be transferred to specified “restructured loan accounts” when the both of the conditions of at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 30% of total (existing + additional loan). As of 31 December 2009, the total amount of restructured loans included in legal follow up during the year is TL103,067 thousand (2008: TL41,986 thousand)

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Maximum exposure to credit risk

	2009	2008
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	3,796,084	3,310,548
Loans and advances to customers		
- Credit cards	7,261,231	7,490,155
- Consumer	7,061,502	6,341,199
- Corporate	24,225,811	24,905,967
- Leasing	2,169,054	2,692,154
- Factoring	1,419,999	1,040,508
Financial assets held for trading:		
- Debt securities	326,960	378,877
- Derivative financial instruments	617,704	433,651
Hedging derivatives	128,631	-
Investment securities - debt securities		
- Available-for-sale	2,002,643	1,812,474
- Held-to-maturity	13,318,719	12,705,781
Other assets	1,149,887	989,504
Credit risk exposures relating to off-balance sheet items:		
Credit related commitments	16,034,976	16,143,907
Other	551,079	656,084

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

Industry sectors

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

	Financial Institutions	Manufacturing	Real Estate	Wholesale and retail trade	Public Sector	Other Industries	Individuals	Total
Loans and advances to banks	3,796,084	-	-	-	-	-	-	3,796,084
Loans and advances to customers	1,473,963	9,556,492	365,798	1,989,678	1,234,148	13,194,785	14,322,733	42,137,597
Trading securities – debt securities	53,081	-	-	-	273,879	-	-	326,960
Derivative financial instruments	541,285	58,091	-	-	-	61	18,267	617,704
Hedging derivatives	128,631	-	-	-	-	-	-	128,631
Investment securities – debt securities	542,959	8,865	-	3,188	14,762,508	3,842	-	15,321,362
Other assets	494,474	-	-	-	26,782	548,693	79,938	1,149,887
As of 31 December 2009	**7,030,477**	**9,623,448**	**365,798**	**1,992,866**	**16,297,317**	**13,747,381**	**14,420,938**	**63,478,225**
As of 31 December 2008	**5,371,448**	**10,451,083**	**266,600**	**2,121,419**	**15,889,129**	**14,089,691**	**13,911,448**	**62,100,818**
Letter of guarantees	1,031,709	4,755,764	140,436	1,007,355	-	6,080,192	281,285	13,296,741
Letter of credits	152,865	2,131,693	-	150,107	-	303,105	465	2,738,235
Acceptance credits	9,743	125,053	-	2,254	-	14,619	-	151,669
Other commitments and contingencies	7,054	222,633	-	33,050	-	136,643	30	399,410
As of 31 December 2009	**1,201,371**	**7,235,143**	**140,436**	**1,192,766**	**-**	**6,534,559**	**281,780**	**16,586,055**
As of 31 December 2008	**1,071,721**	**7,005,125**	**255,271**	**1,262,671**	**-**	**6,944,830**	**260,373**	**16,799,991**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical sectors

Geographical concentrations of total assets:

	Turkey	Italy	Other EU	Other	Total
Cash and balances with central banks	3,975,071	-	197,395	56,869	4,229,335
Loans and advances to banks	2,569,693	1,418	974,524	250,449	3,796,084
Financial assets held for trading					
-Trading securities	365,733	-	190	-	365,923
-Trading derivatives	91,505	243	521,481	4,475	617,704
Hedging derivatives	-	-	115,706	12,925	128,631
Loans and advances to customers, net					
- Credit cards	7,260,990	-	-	241	7,261,231
- Consumer	7,049,260	-	-	12,242	7,061,502
- Corporate	23,209,899	10,908	291,857	713,147	24,225,811
- Leasing	2,132,349	-	23,825	12,880	2,169,054
- Factoring	1,419,999	-	-	-	1,419,999
Investment securities				-	
- Available-for-sale	1,906,019	-	12,047	136,190	2,054,256
- Held-to-maturity	13,153,289	-	152,042	13,388	13,318,719
Investment in associate	-	-	-	58,939	58,939
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	216,330	-	-	111	216,441
Property and equipment	1,139,253	-	615	16,315	1,156,183
Deferred income tax assets	767,573	-	541	2,970	771,084
Other assets	1,121,722	1,604	20,218	6,343	1,149,887
As of 31 December 2009	**67,402,213**	**14,173**	**2,310,441**	**1,297,484**	**71,024,311**
As of 31 December 2008	**65,759,628**	**221,142**	**1,929,355**	**1,983,169**	**69,893,294**
Letter of guarantees	11,982,993	220,038	508,867	584,843	13,296,741
Letter of credits	2,330,580	8,807	52,972	345,876	2,738,235
Acceptance credits	148,894	-	2,775	-	151,669
Other commitments and contingencies	399,410	-	-	-	399,410
As of 31 December 2009	**14,861,877**	**228,845**	**564,614**	**930,719**	**16,586,055**
As of 31 December 2008	**14,948,880**	**233,525**	**859,743**	**757,843**	**16,799,991**

Rating of debt securities:

	2009		2008	
Moody's credit rating model	**Trading securities**	**Investment securities**	**Trading securities**	**Investment securities**
Financial assets:				
Aaa	-	90,523	-	36,158
Aa	190	28,618	-	164,852
A	-	-	-	-
Baa	-	100,901	35,364	62,641
Ba2 (1)	273,878	13,929,689	-	-
Ba3	-	1,117,035	300,308	14,176,139
Unrated	52,892	54,596	43,205	78,465
Total	**326,960**	**15,321,362**	**378,877**	**14,518,255**

(1) Securities consist of the Republic of Turkey government bonds and treasury bills, Ba3 rated items in 2009 consist of corporate bonds with individual rating.

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market risk

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

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

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

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

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

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

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

(i) Fair value hedges

Starting from 1 March 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios using cross-currency interest rate swaps. The net fair value of hedging instruments at 31 December 2009 is a liability amounting to TL228,982 thousand. At 31 December 2009, the fair value difference of the hedging instruments starting from the inception date is TL147,649 thousand and the fair value difference of the hedged item is TL140,137 thousand (Note 9).

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Net investment hedges

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

The Group's Euro-denominated borrowing is designated as a hedge of the net investment in the Group's some EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at 31 December 2009 is EUR191 million (2008: EUR169 million). The foreign exchange loss of TL2,353 thousand (2008: TL57,440 thousand loss), net of tax, on translation of the borrowing to TL at the balance sheet date is recognised in "other reserves" in equity.

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

(a) Value-at-risk

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

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

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied. (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is TL2,526 thousand in 2009.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

(a) Group VaR by risk type	12 months to Reporting Date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of securities	153,970	247,332	86,478
Equities risk	-	-	-
Total VaR	**159,389**	**246,084**	**94,778**

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

(b) Trading portfolio VaR by risk type	12 months to Reporting Date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of trading securities	1,904	4,344	333
Equities risk	-	-	-
Total VaR	**2,526**	**6,604**	**495**

	12 months to Reporting Date (2008)		
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of trading securities	1,919	7,798	321
Equities risk	-	-	-
Total VaR	**2,229**	**8,550**	**415**

(c) Non-trading portfolio VaR by risk type	12 months to Reporting Date (2009)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	152,522	242,998	91,231
Equities risk	-	-	-
Total VaR	**152,522**	**242,998**	**91,231**

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

(b) Stress tests

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

i) Foreign exchange risk

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

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2009 and 2008. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

2009

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**TL**	**Total**
Assets						
Cash and balances with central banks	88,474	2,306,349	50,239	2,445,062	1,784,273	4,229,335
Loans and advances to banks	764,160	827,321	78,069	1,669,550	2,126,534	3,796,084
Financial assets held for trading						
- Trading securities	44,227	65,365	-	109,592	256,331	365,923
- Trading derivatives	-	-	-	-	617,704	617,704
Loans and advances to customers (1)	11,111,317	6,369,968	586,277	18,067,562	24,070,035	42,137,597
Hedging derivatives	-	-	-	-	128,631	128,631
Investment securities						
- Available-for-sale (2)	937,685	70,587	81,434	1,089,706	964,550	2,054,256
- Held-to-maturity	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
Investment in associates (2)	-	-	58,939	58,939	-	58,939
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	111	111	216,330	216,441
Property and equipment	-	615	16,315	16,930	1,139,253	1,156,183
Deferred income tax assets	-	541	2,970	3,511	767,573	771,084
Other assets	143,529	170,380	192,775	506,684	643,203	1,149,887
Total assets	**19,075,519**	**11,087,117**	**1,067,633**	**31,230,269**	**39,794,042**	**71,024,311**
Liabilities						
Deposits from banks	1,199,071	616,659	196,714	2,012,444	419,735	2,432,179
Due to customers	11,504,089	6,994,241	740,414	19,238,744	22,942,642	42,181,386
Other borrowed funds	1,512,248	5,658,712	43,017	7,213,977	1,417,159	8,631,136
Debt securities in issue	1,016,282	728,196	-	1,744,478	-	1,744,478
Derivative financial instruments	-	-	-	-	268,515	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	653	-	653	68,383	69,036
Deferred income tax liabilities	-	-	1,650	1,650	286,644	288,294
Hedging derivatives	-	-	-	-	357,613	357,613
Other provisions	-	7,012	-	7,012	390,859	397,871
Retirement benefit obligations	-	1,938	-	1,938	962,603	964,541
Insurance technical reserves	264,935	55,513	-	320,448	546,356	866,804
Other liabilities	349,144	242,366	19,515	611,025	3,505,030	4,116,055
Total liabilities	**15,845,769**	**14,305,290**	**1,001,310**	**31,152,369**	**31,165,539**	**62,317,908**
Net balance sheet position	**3,229,750**	**(3,218,173)**	**66,323**	**77,900**	**8,628,503**	**8,706,403**
Off-balance sheet derivative instruments net notional position	(3,092,881)	3,385,106	112,263	404,488	4,072,515	4,477,003
Net foreign currency position	**136,869**	**166,933**	**178,586**	**482,388**	**12,701,018**	**13,183,406**

(1) Collective impairment allowance of TL352,501 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2009, the net foreign currency position of the Group would decrease from TL482,388 thousand to TL421,543 thousand.

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2008

	Foreign currency					
	US$	**EUR**	**Other**	**Total**	**TL**	**Total**
Assets						
Cash and balances with central banks	89,623	2,696,534	76,159	2,862,316	1,854,700	4,717,016
Loans and advances to banks	1,225,854	1,584,284	247,183	3,057,321	253,227	3,310,548
Financial assets held for trading						
- Trading securities	115,548	82,541	-	198,089	198,375	396,464
- Trading derivatives	-	-	-	-	433,651	433,651
Loans and advances to customers (1)	11,182,602	6,555,605	593,652	18,331,859	24,138,124	42,469,983
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale (2)	804,572	87,198	137,463	1,029,233	856,858	1,886,091
- Held-to-maturity	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781
Investment in associates (2)	-	-	55,593	55,593	-	55,593
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	124	124	179,573	179,697
Property and equipment	-	806	14,959	15,765	1,199,823	1,215,588
Deferred income tax assets	-	5,066	2,649	7,715	502,135	509,850
Other assets	196,261	111,680	77,745	385,686	603,818	989,504
Total assets	**19,270,339**	**12,286,507**	**1,209,569**	**32,766,415**	**37,126,879**	**69,893,294**
Liabilities						
Deposits from banks	320,128	405,518	146,985	872,631	210,210	1,082,841
Due to customers	12,343,831	6,050,331	601,666	18,995,828	24,730,019	43,725,847
Other borrowed funds	2,974,763	5,050,085	17,237	8,042,085	1,610,353	9,652,438
Debt securities in issue	1,095,020	871,278	-	1,966,298	-	1,966,298
Derivative financial instruments	-	-	-	-	220,782	220,782
Financial liabilities designated at fair value	66,434	-	-	66,434	-	66,434
Current income taxes payable	-	904	642	1,546	6,793	8,339
Deferred income tax liabilities	-	4,431	1,989	6,420	195,502	201,922
Hedging derivatives	-	-	-	-	-	-
Other provisions	29,471	-	-	29,471	347,764	377,235
Retirement benefit obligations	-	1,696	-	1,696	867,559	869,255
Insurance technical reserves	262,248	69,493	-	331,741	503,459	835,200
Other liabilities	190,331	472,187	19,626	682,144	3,165,544	3,847,688
Total liabilities	**17,282,226**	**12,925,923**	**788,145**	**30,996,294**	**31,857,985**	**62,854,279**
Net balance sheet position	**1,988,113**	**(639,416)**	**421,424**	**1,770,121**	**5,268,894**	**7,039,015**
Off-balance sheet derivative instruments net notional position	(1,992,079)	864,709	(256,540)	(1,383,910)	1,779,666	395,756
Net foreign currency position	**(3,966)**	**225,293**	**164,884**	**386,211**	**7,048,560**	**7,434,771**

(1) Collective impairment allowance of TL249,124 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2008, the net foreign currency position of the Group would decrease from TL386,211 thousand to TL308,787 thousand.

At 31 December 2009, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL1.4680 = US$1, and TL2.1062 = EUR1 (2008: TL1.4744 = US$1, and TL2.0872 = EUR1).

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest rate risk

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

The table below summarises the Group's exposure to interest rate risk at 31 December 2009 and 2008. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

2009	**Up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
Assets						
Cash and balances with central banks	1,302,954	-	-	-	2,926,381	4,229,335
Loans and advances to banks	3,212,700	95,689	146,168	13,899	327,628	3,796,084
Financial assets held for trading						
- Trading securities	143,878	50,069	63,024	17,097	91,855	365,923
- Trading derivatives	477,729	33,246	105,412	1,317	-	617,704
Loans and advances to customers	13,143,049	10,450,643	11,378,469	6,618,735	546,701	42,137,597
Hedging derivatives	128,519	28	84	-	-	128,631
Investment securities						
- Available-for-sale	657,076	267,807	187,114	886,971	55,288	2,054,256
- Held-to-maturity	4,690,434	1,449,880	2,733,148	4,445,257	-	13,318,719
Investment in associate	-	-	-	-	58,939	58,939
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	216,441	216,441
Property and equipment	-	-	-	-	1,156,183	1,156,183
Deferred income tax assets	-	-	-	-	771,084	771,084
Other assets	278,063	7,572	-	-	864,252	1,149,887
Total assets	**24,034,402**	**12,354,934**	**14,613,419**	**11,983,276**	**8,038,280**	**71,024,311**
Liabilities						
Deposits from banks	1,673,841	481,449	-	-	276,889	2,432,179
Due to customers	32,119,692	1,619,626	556,231	134,036	7,751,801	42,181,386
Other borrowed funds	5,239,191	3,263,947	127,998	-	-	8,631,136
Debt securities in issue	1,743,760	-	-	-	718	1,744,478
Derivative financial instruments	122,982	47,014	74,773	23,746	-	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	-	-	-	69,036	69,036
Deferred income tax liabilities	-	-	-	-	288,294	288,294
Hedging derivatives	73,077	40	259,616	24,880	-	357,613
Other provisions	-	-	-	-	397,871	397,871
Retirement benefit obligations	-	-	-	-	964,541	964,541
Insurance technical reserves	-	-	-	-	866,804	866,804
Other liabilities	2,215,932	3,570	-	-	1,896,553	4,116,055
Total liabilities	**43,188,475**	**5,415,646**	**1,018,618**	**182,662**	**12,512,507**	**62,317,908**
Net interest repricing gap	**(19,154,073)**	**6,939,288**	**13,594,801**	**11,800,614**	**(4,474,227)**	**8,706,403**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2009 and 2008 based on yearly contractual rates.

	2009			2008		
	US$ (%)	EUR (%)	TL (%)	US$ (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	-	3.78	0.63	1.12	8.64
Loans and advances to banks	1.80	1.06	7.33	1.60	2.71	17.67
Financial assets held for trading	5.81	7.34	8.59	8.15	6.81	19.21
Investment securities						
- Available-for-sale	7.43	7.18	11.73	6.43	7.76	19.63
- Held-to-maturity	6.80	5.54	11.49	7.36	5.99	20.08
Loans and advances to customers	5.29	6.14	17.81	6.04	7.37	24.06
Liabilities						
Deposits from banks	1.68	1.16	2.98	5.39	5.54	16.07
Due to customers	1.94	1.90	7.87	4.50	3.60	20.28
Debt securities in issue	1.29	1.76	-	3.82	5.99	-
Financial liabilities designated at fair value	-	-	-	6.16	-	-
Other borrowed funds	2.30	2.77	13.29	3.44	5.66	15.67

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

iii) Liquidity risk

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

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

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

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

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

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

2009	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Liabilities					
Deposits from banks	1,952,974	487,196	-	-	2,440,170
Due to customers	39,969,003	1,668,914	614,776	164,736	42,417,429
Other borrowed funds	1,507,069	3,872,085	1,970,505	2,122,797	9,472,456
Debt securities in issue	94,950	279,884	1,322,552	618,381	2,315,767
Financial liabilities designated at fair value	-	-	-	-	-
Total liabilities	**43,523,996**	**6,308,079**	**3,907,833**	**2,905,914**	**56,645,822**
Assets held for managing liquidity risk (contractual maturity dates)	**21,852,211**	**16,345,096**	**21,757,207**	**14,514,462**	**74,468,976**

2008	**Demand and up to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Total**
Liabilities					
Deposits from banks	973,054	115,688	-	-	1,088,742
Due to customers	42,138,195	1,315,708	526,844	140,178	44,120,925
Other borrowed funds	2,134,802	4,046,580	2,469,799	2,728,494	11,379,675
Debt securities in issue	-	70,460	1,359,451	978,386	2,408,297
Financial liabilities designated at fair value	-	67,032	-	-	67,032
Total liabilities	**45,246,051**	**5,615,468**	**4,356,094**	**3,847,058**	**59,064,671**
Assets held for managing liquidity risk (contractual maturity dates)	**21,072,193**	**17,050,785**	**21,463,511**	**14,999,615**	**74,586,104**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The following table represents the outstanding derivative cash flows of the Group on undiscounted contractual maturity basis:

Derivatives settled on a gross basis

2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	7,542,363	2,350,088	715,018	267,544	262,528	11,137,541
- Inflow	7,578,917	2,720,600	725,628	353,728	262,528	11,641,401
Interest rate derivatives:						
- Outflow	98,888	897,543	468,219	3,827,142	1,022,597	6,314,389
- Inflow	94,622	893,260	358,828	3,558,805	987,070	5,892,585
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	9,847	13,769	139,278	2,066,193	235,690	2,464,777
- Inflow	452	865	8,057	1,806,284	213,395	2,029,053
Total outflow	**7,651,098**	**3,261,400**	**1,322,515**	**6,160,879**	**1,520,815**	**19,916,707**
Total inflow	**7,673,991**	**3,614,725**	**1,092,513**	**5,718,817**	**1,462,993**	**19,563,039**

2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	3,301,229	543,819	2,339,573	41,903	-	6,226,524
- Inflow	3,313,034	544,424	2,613,667	41,498	-	6,512,623
Interest rate derivatives:						
- Outflow	216,750	7,144	308,537	1,980,982	328,646	2,842,059
- Inflow	499,929	1,871,994	163,571	17,636	328,646	2,881,776
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Total outflow	**3,517,979**	**550,963**	**2,648,110**	**2,022,885**	**328,646**	**9,068,583**
Total inflow	**3,812,963**	**2,416,418**	**2,777,238**	**59,134**	**328,646**	**9,394,399**

C. Operational risk

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

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the “ Regulation Regarding Measurement and Evaluation of Banks’ Capital Adequacy Ratio” published in the Official Gazette No. 26333 dated 1 November 2006, namely “The Calculation of the Amount Subject to Operational Risk”, based on the gross income of the Group for the years ended 2008, 2007 and 2006. As of 31 December 2009, the total amount subject to operational risk is calculated as TL7,695,259 thousand (2008: TL6,418,028 thousand) and the amount of the related capital requirement is TL615,621thousand (2008: TL513,442 thousand).

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

D. Capital management

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

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

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

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

	2009	**2008**
Tier I capital		
-Share capital	4,347,051	4,347,051
-Share premium	543,881	543,881
-Legal reserves	96,220	44,089
-Retained earnings	1,505,894	1,005,547
-Extraordinary reserves	1,769,658	822,644
-Non-controlling interests	57,261	47,980
-Provisions for possible risks up to 25% of core capital	96,616	63,775
-Profit on disposal of associates, subsidiaries and immovables to be transferred to share capital	61,969	18,513
-Less: intangible assets	(1,194,649)	(1,157,825)
-Less: Special costs	(97,938)	-
-Less: Prepaid expenses	(109,837)	(167,762)
Total qualifying Tier I capital	7,076,126	5,567,893
Tier II capital		
-Collective impairment allowance	755,571	659,018
-Secondary subordinated loan	2,208,374	2,172,900
-Revaluation reserve - available-for-sale-investments	46,893	15,289
Total qualifying Tier II capital	3,010,838	2,847,207
Deductions		
-Investments in unconsolidated financial institutions and banks	(28,530)	(32,083)
-Investments in financial institutions (domestic, foreign) and banks,in which less than 10% equity interest is exercised and that exceeds 10% and more of the total core and supplementary capital of the Bank	(58,939)	(55,593)
-The net book value of Bank's immovables that are over 50% of shareholders' equity and immovables or commodities that are received on behalf of the receivables from customers and are to be disposed according to Banking Law article 57 as they have been held for more than five years from the acquisition date.	(16,145)	-
Total deductions	(103,614)	(87,676)
Total regulatory capital	**9,983,350**	**8,327,424**

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Amount subject to credit risk	50,885,068	51,093,393
Amount subject to market risk	1,865,338	972,600
Amount subject to operational risk	7,695,259	6,418,028
Capital adequacy ratio (%)	**16.52**	**14.24**

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

E. Fair value of financial instruments

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

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

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

	2009		**2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Loans and advances to banks	3,796,084	3,799,876	3,310,548	3,340,164
Investment securities (held-to-maturity)	13,318,719	13,982,200	12,705,781	12,482,450
Loans and advances to customers	42,137,597	42,225,440	42,469,983	42,653,501
Financial liabilities:				
Deposits from banks	2,432,179	2,434,939	1,082,841	1,082,849
Due to customers	42,181,386	42,181,386	43,725,847	43,725,847
Other borrowed funds	8,631,136	8,702,533	9,652,438	9,694,556
Debt securities in issue	1,744,478	1,744,478	1,966,298	1,966,298

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

Loans and advances to banks

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Loans and advances to customers

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

Investment securities

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

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

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

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

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

Fair value hierarchy

IFRS 7 requires classification of line items at fair value presented at financial statements according to the defined levels. These levels depend on the observability of data used during fair value calculations. Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to these classification principles stated, the Group’s classification of financial assets and liabilities carried at their fair value are as follows:

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Assets and liabilities measured at fair value

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	326,770	190	-	326,960
- Equity securities	38,963	-	-	38,963
- Derivatives	-	617,704	-	617,704
Financial assets designated at fair value				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	128,631	-	128,631
Available-for-sale financial assets				
- Investments securities - debt	1,963,444	39,199	-	2,002,643
- Investments securities - equity	26,599	-	25,014	51,613
Total assets	**2,355,776**	**785,724**	**25,014**	**3,166,514**
Financial liabilities at fair value through profit and loss				
- Derivatives	-	268,515	-	268,515
- Financial liabilities designated at fair value	-	-	-	-
Hedging derivatives	-	357,613	-	357,613
Total liabilities	**-**	**626,128**	**-**	**626,128**

Reconciliation of Level 3 Items

Available-for-sale financial assets	**Investment securities - equity**
Balance at the beginning of the period	7,160
Total losses	-
- Profit or loss	78
- Other comprehensive income	-
Purchases	4,506
Issues	-
Settlements	-
Transfers to loans and receivables	-
Transfers into or out of Level 3	13,270
Balance At the end of the period	**25,014**
Total losses for the period included in profit or loss for assets/liabilities held at period end	-

F. Fiduciary activities

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

	2009	2008
Investment securities held in custody	19,229,647	15,497,795
Cheques received for collection	5,033,055	5,350,632
Commercial notes received for collection	1,693,290	1,599,651
	25,955,992	**22,448,078**

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

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	2009	2008
Cash and cash equivalents	655,565	608,093
Demand deposits with central banks	715,217	888,849
Gold	188,796	74,524
Loans and advances to banks (with original maturity less than three months)	3,518,848	1,981,778
Total	**5,078,426**	**3,553,244**

NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS

	2009	2008
Cash and cash equivalents		
Cash in hand - foreign currency	173,797	182,631
Cash in hand - TL	479,054	421,331
Cheques received - foreign currency	183	372
Other	2,531	3,759
	655,565	**608,093**
Demand deposits at central banks		
Foreign currency	714,953	888,795
TL	264	54
	715,217	**888,849**
Reserve deposits at central banks		
Foreign currency	1,556,129	1,790,518
TL	1,302,424	1,429,556
	2,858,553	**3,220,074**
	4,229,335	**4,717,016**

Reserve deposits at central banks are as follows:

	2009	2008
The Central Bank of Republic of Turkey	2,658,972	3,093,081
De Nederlandsche Bank	197,391	119,789
The Central Bank of the Russian Federation	1,660	348
The National Bank of Azerbaijan	530	6,856
Total	**2,858,553**	**3,220,074**

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

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

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

Turkish:

Reserve requirements of Central Bank of the Republic of Turkey ("CBRT") represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 5% (2008: 6%) and 9% (2008: 9%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

Foreign:

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

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 2.5% of the liabilities to non-resident legal entities in all currencies, 2.5% of the liabilities to natural persons in all currencies, 2.5% of the other liabilities in all currencies.

Reserve requirements of National Bank of Azerbaijan; represent reserve deposits equivalent to 0.5% of the statutory balances of customer accounts, due to banks and other funds borrowed.

NOTE 7 - LOANS AND ADVANCES TO BANKS

	2009			2008		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
TL:						
Nostro/ demand deposits	31,456	6,398	37,854	28,778	7,619	36,397
Time deposits	453,626	53,595	507,221	82,875	2,578	85,453
Interbank money market	1,581,459	-	1,581,459	126,497	4,880	131,377
	2,066,541	**59,993**	**2,126,534**	**238,150**	**15,077**	**253,227**
Foreign currency:						
Nostro/ demand deposits	14,367	275,407	289,774	12,054	523,784	535,838
Time deposits	488,785	890,991	1,379,776	575,275	1,849,623	2,424,898
Interbank money market	-	-	-	29,968	66,617	96,585
	503,152	**1,166,398**	**1,669,550**	**617,297**	**2,440,024**	**3,057,321**
	2,569,693	**1,226,391**	**3,796,084**	**855,447**	**2,455,101**	**3,310,548**

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

NOTE 8 - FINANCIAL ASSETS HELD FOR TRADING

	2009	2008
Government bonds and treasury bills	207,224	193,854
Government bonds and treasury bills sold under repurchase agreements	66,654	106,454
Other debt securities	53,082	78,569
Total debt securities	**326,960**	**378,877**
Equity securities - listed	38,963	17,587
Total equity securities	**38,963**	**17,587**
Derivative financial instruments	617,704	433,651
Total financial assets held for trading	**983,627**	**830,115**

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group utilises the following derivative instruments:

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

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

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

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

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

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

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

2009

	Contract/ notional amount	Fair values Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4,076,196	39,284	42,170
Currency swaps	13,815,348	474,910	12,707
OTC currency options	3,938,532	30,974	30,880
Other derivatives	423,808	-	-
Total OTC derivatives	**22,253,884**	**545,168**	**85,757**
Interest rate derivatives:			
Interest rate swaps	7,191,104	38,170	25,336
Cross-currency interest rate swaps	3,025,092	33,889	156,490
OTC interest rate options	1,793,988	477	932
Total OTC derivatives	**12,010,184**	**72,536**	**182,758**
Total derivative assets/ (liabilities) held for trading	**34,264,068**	**617,704**	**268,515**
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Interest rate swaps	3,968,893	128,631	357,613
Total derivative assets/ (liabilities) held for hedging	**3,968,893**	**128,631**	**357,613**
Total recognised derivative assets/ (liabilities)	**38,232,961**	**746,335**	**626,128**
Current		494,171	126,341
Non-current		252,164	499,787
Total recognised derivative assets/ (liabilities)	**38,232,961**	**746,335**	**626,128**

2008

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

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

2009	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	22,964,455	6,631,435	7,083,106	1,717,570	1,429,416	39,825,982
Watch listed loans	1,482,618	361,959	411,500	328,665	-	2,584,742
Loans under legal follow - up	1,242,429	492,319	803,888	284,233	8,173	2,831,042
Gross	**25,689,502**	**7,485,713**	**8,298,494**	**2,330,468**	**1,437,589**	**45,241,766**
Specific allowance for impairment	(1,157,577)	(368,479)	(804,461)	(152,998)	(6,258)	(2,489,773)
Collective allowance for impairment	(306,114)	(55,732)	(232,802)	(8,416)	(11,332)	(614,396)
Total allowance for impairment	**(1,463,691)**	**(424,211)**	**(1,037,263)**	**(161,414)**	**(17,590)**	**(3,104,169)**
Net	**24,225,811**	**7,061,502**	**7,261,231**	**2,169,054**	**1,419,999**	**42,137,597**
Current						23,338,486
Non-current						18,799,111

2008	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	24,131,553	5,998,995	7,050,632	2,456,562	1,046,234	40,683,976
Watch listed loans	813,328	250,613	394,908	166,171	-	1,625,020
Loans under legal follow - up	889,788	246,739	493,860	183,098	4,984	1,818,469
Gross	**25,834,669**	**6,496,347**	**7,939,400**	**2,805,831**	**1,051,218**	**44,127,465**
Specific allowance for impairment	(634,178)	(103,181)	(321,075)	(101,510)	(4,838)	(1,164,782)
Collective allowance for impairment	(294,524)	(51,967)	(128,170)	(12,167)	(5,872)	(492,700)
Total allowance for impairment	**(928,702)**	**(155,148)**	**(449,245)**	**(113,677)**	**(10,710)**	**(1,657,482)**
Net	**24,905,967**	**6,341,199**	**7,490,155**	**2,692,154**	**1,040,508**	**42,469,983**
Current						25,449,227
Non-current						17,020,756

Fair value of collateral:

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

2009	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	410,783	180,037	-	183,043	-	773,863
Loans under legal follow - up	342,043	173,030	-	117,649	8,173	640,895
Total	**752,826**	**353,067**	**-**	**300,692**	**8,173**	**1,414,758**

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

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Included in the performing loans and advances to consumers, are loans amounting to TL2,083,948 thousand which have been designated as financial asset at fair value as of 31 December 2009 (2008: None). Those loans have been matched with interest rate swaps whose notional amounts are TL3,968,893 thousand as of 31 December 2009 (2008: None) as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the loans and advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. By designating those loans and advances at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

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

	2009						2008
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total	Total
At 1 January	**928,702**	**155,148**	**449,245**	**113,677**	**10,710**	**1,657,482**	**1,989,741**
Provision for loan impairment	881,686	653,655	978,839	115,924	7,012	2,637,116	862,125
Amounts recovered during the year	(311,816)	(360,390)	(302,991)	(53,484)	(152)	(1,028,833)	(480,734)
Loans written off during the year as uncollectible (-)	(33,502)	(24,189)	(87,831)	(14,703)	-	(160,225)	(715,562)
Exchange differences	(1,379)	(13)	1	-	20	(1,371)	1,912
At 31 December	**1,463,691**	**424,211**	**1,037,263**	**161,414**	**17,590**	**3,104,169**	**1,657,482**

At the Board of Directors Meeting held on 27 May 2009; it has been decided to sell out a non-performing loan portfolio amounting to TL77,424 thousand (excluding the write-offs) included in non-performing loan accounts at a price of TL26,525 thousand. This transaction has affected the financial statements as TL22,668 thousand of pretax income after legal expenses.

As of 28 March 2008, the Bank sold out a non-performing loan portfolio amounting to TL429,229 thousand selected out of its commercial, corporate and SME problematic loan stocks via adjudication as of 7 March 2008. The corresponding portfolio has eventuated as TL421,167 thousand after deduction of amounts for which sales transactions were realised except the real estate having right of repurchase. As of the date of the sale, the Bank has recognised provision amounting to TL376,395 thousand for the related loans stock. As of 28 March 2008, the portion amounting to TL2,203 thousand out of the total amount of TL60,500 thousand is kept as the value for the real estate with right to repurchase and the remaining portion amounting to TL58,297 thousand is collected. After the deduction of mentioned amounts, the portfolio amounting to TL362,468 thousand has been included in the table above in "Loans written off during the year as uncollectible" line.

	2009	2008
Gross investment in direct finance leases	2,644,114	3,163,335
Unearned finance income	(412,710)	(511,495)
	2,231,404	**2,651,840**
Interest accrual on receivables	39,187	30,752
Receivables from outstanding lease payments	59,877	123,239
Provision for impaired lease receivables	(161,414)	(113,677)
Net investment in direct finance leases	**2,169,054**	**2,692,154**

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

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

	2009	2008
Less than 1 year	-	1,214,924
More than 1 year but not later than 5 Years	895,583	807,341
Later than 5 Years	1,234,697	945,792
Less: unearned finance income	(412,710)	(511,495)
Investment in performing lease receivables	**1,717,570**	**2,456,562**

NOTE 11 - INVESTMENT SECURITIES

(i) Securities available-for-sale

	2009	2008
Debt securities - at fair value:	2,002,643	1,812,474
Government bonds and treasury bills	960,334	893,589
Eurobonds	919,003	641,995
Government bonds and treasury bills sold under repurchase agreements	-	18,639
Eurobonds sold under repurchase agreement	17,585	-
Other	105,721	258,251
Equity securities - at fair value	51,613	73,617
Listed	26,743	53,246
Unlisted	24,870	20,371
Total securities available-for-sale	**2,054,256**	**1,886,091**
Current	584,333	471,578
Non-current	1,469,923	1,414,513

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

Net gains from changes in the fair value of available-for-sale investment securities, net of tax is TL78,361 thousand (2008: TL9,689 thousand net losses). There are no impairments recognised for available-for-sale debt securities.

The principal available-for-sale equity shares at 31 December 2009 and 2008 are as follows:

Name of the company	Nature of Business	2009 Control rates (%)	2008 Control rates (%)	2009	2008
Listed					
Yapı Kredi Koray	Real estate management	30.45	30.45	24,683	31,354
Mastercard Inc.	Credit Card Services	0.01	0.01	1,916	11,449
Visa Inc.	Credit Card Services	-	0.01	-	10,382
Other				144	61
				26,743	**53,246**
Unlisted					
ISE Settlement and Custody Bank Inc.	Custody	4,86	4.86	12,360	12,360
Kredi Kayıt Bürosu A.Ş.	Credit Card Services	18,18	18.18	2,751	2,751
Türkiye Genel Sigorta A.Ş.	Insurance	0,01	0.01	25	25
Other				9,734	5,235
				24,870	**20,371**
				51,613	**73,617**

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

NOTE 11 - INVESTMENT SECURITIES (Continued)

The movement in available-for-sale securities at 31 December is as follows:

	2009	2008
At 1 January	**1,886,091**	**1,039,899**
Additions	17,563,113	32,149,066
Disposals / redemption	(17,450,316)	(31,357,817)
Gains from changes in fair value	97,567	36,808
Impairment losses	(34,284)	(10,733)
Exchange differences on monetary assets	(7,915)	28,868
At 31 December	**2,054,256**	**1,886,091**

(ii) Securities held-to-maturity

	2009	2008
Debt securities - at amortised cost - listed:	13,318,719	12,705,781
Government bonds and treasury bills	6,830,558	6,192,275
Eurobonds	4,960,654	5,718,643
Government bonds and treasury bills sold under repurchase agreements	65,815	161,622
Eurobonds sold under repurchase agreement	1,309,650	583,340
Foreign government bonds	152,042	49,901
Total securities held-to-maturity	**13,318,719**	**12,705,781**
Current	3,503,540	927,816
Non-current	11,869,435	13,664,056
Total investment securities	**15,372,975**	**14,591,872**

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

	2009	2008
At 1 January	**12,705,781**	**13,003,287**
Additions	2,008,035	536,931
Disposals / redemption	(1,139,115)	(2,356,693)
Exchange differences on monetary assets	(255,982)	1,522,256
At 31 December	**13,318,719**	**12,705,781**

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

NOTE 12 - INVESTMENT IN ASSOCIATE

	2009	2008
At 1 January	**55,593**	**38,220**
Share of results	5,417	3,667
Dividends paid	(1,840)	(1,290)
Exchange difference	(231)	14,996
At 31 December	**58,939**	**55,593**

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

	Total Assets	Equity	Revenues	Net Profit
31 December 2008	3,440,068	181,261	131,758	16,163
31 December 2009	3,563,413	193,590	70,080	19,081

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

NOTE 13 - GOODWILL

	2009	2008
At 1 January	**1,023,528**	**1,023,528**
Impairment charge	-	-
At 31 December	**1,023,528**	**1,023,528**

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

There was no impairment identified at 31 December 2009 (2008: None).

NOTE 14 - OTHER INTANGIBLE ASSETS

	2009	2008
Cost	340,104	288,115
Accumulated amortisation	(123,663)	(108,418)
Net book amount	**216,441**	**179,697**

Movements of other intangible assets were as follows:

2009	**Rights and licenses**	**Software**	**Trademarks and customer relationships related intangibles**	**Total**
Cost				
At 1 January	**76,252**	**48,779**	**163,084**	**288,115**
Additions	47,626	33,790	-	81,416
Disposals	(24,792)	(4,350)	-	(29,142)
Transfers	(285)	-	-	(285)
Translation differences	-	-	-	-
At 31 December	**98,801**	**78,219**	**163,084**	**340,104**
Accumulated amortisation				
At 1 January	**(30,396)**	**(25,021)**	**(53,001)**	**(108,418)**
Amortisation charge (Note 33)	(10,094)	(11,894)	(16,308)	(38,296)
Disposals	18,796	4,251	-	23,047
Transfers	4	-	-	4
Translation differences	-	-	-	-
At 31 December	**(21,690)**	**(32,664)**	**(69,309)**	**(123,663)**
Net book amount at 31 December	**77,111**	**45,555**	**93,775**	**216,441**

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

NOTE 14 - OTHER INTANGIBLE ASSETS (Continued)

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

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset. In line with the report dated 13 February 2006 the Bank recognised TL163,084 thousand of intangible assets in its consolidated financial statements. Identified intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years. As of 31 December 2009, the net book value of these intangible assets amounts to TL93,775 thousand (2008: TL110,083 thousand).

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

NOTE 15 - PROPERTY AND EQUIPMENT

	2009	2008
Cost	3,971,510	4,060,379
Accumulated depreciation and impairment	(2,815,327)	(2,844,791)
Net book amount	**1,156,183**	**1,215,588**

2009

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	**2,911,837**	**640,323**	**343,075**	**165,144**	**4,060,379**
Additions	36,826	44,060	21,664	19,725	122,275
Disposals	(144,643)	(17,802)	(27,242)	(21,260)	(210,947)
Transfers	4,562	(7,075)	2,495	303	285
Translation difference	(449)	(31)	(15)	13	(482)
At 31 December	**2,808,133**	**659,475**	**339,977**	**163,925**	**3,971,510**
Accumulated depreciation and impairment					
At 1 January	**(2,052,332)**	**(463,840)**	**(270,825)**	**(57,794)**	**(2,844,791)**
Depreciation charge (Note 33)	(46,023)	(56,268)	(14,270)	(29,068)	(145,629)
Disposals	109,338	17,258	23,982	20,493	171,071
Transfers	(793)	3,345	(2,552)	(4)	(4)
Recoveries	-	-	-	-	-
Impairment charge, net (Note 33)	3,888	-	-	-	3,888
Translation difference	134	26	(9)	(13)	138
At 31 December	**(1,985,788)**	**(499,479)**	**(263,674)**	**(66,386)**	**(2,815,327)**
Net book amount at 31 December	**822,345**	**159,996**	**76,303**	**97,539**	**1,156,183**

2008

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

At 31 December 2009, total impairment provision on property and equipment amounts to TL627,377 thousand (2008: TL631,265 thousand).

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

NOTE 16 - OTHER ASSETS

	2009	2008
Collaterals given	215,881	130,584
Gold stocks	188,796	74,524
Due from insurance policyholders	157,394	158,656
Prepaid expenses	132,298	167,845
Asset held for resale, net	97,048	95,149
Payments for credit card settlements	65,113	44,082
Advances given	17,689	26,155
Accounts receivable	6,776	17,165
Other	268,892	275,344
	1,149,887	**989,504**
Current	897,070	794,218
Non-current	252,817	195,286

Assets held for resale represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. Movements in assets held for resale at 31 December were as follows:

	2009	2008
Cost		
At 1 January	**117,605**	**128,938**
Additions	16,656	59,620
Disposals	(22,059)	(70,953)
At 31 December	**112,202**	**117,605**
Impairment		
At 1 January	**(22,456)**	**(60,854)**
Impairment charge for the year, net (Note 33)	-	(522)
Disposals	7,302	38,920
At 31 December	**(15,154)**	**(22,456)**
Net book amount at 31 December	**97,048**	**95,149**

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

NOTE 17 - DEPOSITS FROM BANKS

	2009			2008		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	135,245	160,824	296,069	94,482	116	94,598
Foreign banks	8,166	599,628	607,794	25,452	127,603	153,055
Funds deposited under repurchase agreements	-	1,108,581	1,108,581	-	624,978	624,978
	143,411	**1,869,033**	**2,012,444**	**119,934**	**752,697**	**872,631**
TL:						
Domestic banks	56,574	9,321	65,895	91,710	49,674	141,384
Foreign banks	76,904	276,936	353,840	20,995	47,831	68,826
	133,478	**286,257**	**419,735**	**112,705**	**97,505**	**210,210**
	276,889	**2,155,290**	**2,432,179**	**232,639**	**850,202**	**1,082,841**
Current	276,889	2,155,290	2,432,179	232,639	850,202	1,082,841
Non-current	-	-	-	-	-	-

NOTE 18 - DUE TO CUSTOMERS

	2009			2008		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	2,076,935	8,229,426	10,306,361	1,754,634	8,420,204	10,174,838
Commercial deposits	2,208,694	6,723,689	8,932,383	1,801,831	7,015,821	8,817,652
Public sector deposits	-	-	-	3,338	-	3,338
	4,285,629	**14,953,115**	**19,238,744**	**3,559,803**	**15,436,025**	**18,995,828**
TL deposits:						
Saving deposits	1,440,267	13,946,703	15,386,970	1,044,092	14,787,777	15,831,869
Commercial deposits	1,747,739	5,344,243	7,091,982	1,203,785	7,119,835	8,323,620
Funds deposited under repurchase agreements	-	130,106	130,106	-	160,448	160,448
Public sector deposits	278,166	55,418	333,584	250,889	163,193	414,082
	3,466,172	**19,476,470**	**22,942,642**	**2,498,766**	**22,231,253**	**24,730,019**
	7,751,801	**34,429,585**	**42,181,386**	**6,058,569**	**37,667,278**	**43,725,847**
Current	7,751,801	33,739,320	41,491,121	6,058,569	37,115,099	43,173,668
Non-current	-	690,265	690,265	-	552,179	552,179

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

NOTE 19 - OTHER BORROWED FUNDS

	2009	2008
Foreign institutions and banks		
Syndication loans	2,070,306	1,479,804
Subordinated debt	2,224,023	2,220,601
Other	3,212,281	4,800,994
Total foreign	**7,506,610**	**8,501,399**
Domestic banks	1,077,640	883,428
Interbank money market	46,886	267,611
Total domestic	**1,124,526**	**1,151,039**
	8,631,136	**9,652,438**
Current	5,012,536	5,701,524
Non-current	3,618,600	3,950,914

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

Funds borrowed from foreign institutions include a syndicated credit facility, in the amount of US$136 million and EUR210.5 million dual-tranche multi-currency term loan facility dated 21 April 2009, with an interest rate of annual Libor+2.50% provided by 20 international banks with, Wachovia Bank, National Association acting as agent, and matures on 27 April 2010.

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

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

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

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

NOTE 20 - DEBT SECURITIES IN ISSUE

			Average interest rate (%) (1)	
	2009	**2008**	**2009**	**2008**
US$175,000,000 Series 2006-A Floating Rate Notes Due 2014	257,266	258,967	0.51	2.42
US$200,000,000 Series 2006-B Floating Rate Notes Due 2014	294,019	295,962	0.48	2.39
US$114,000,000 Series 2006-C Floating Rate Notes Due 2013	167,569	170,155	0.61	2.52
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	590,539	629,848	0.93	4.34
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	141,833	241,430	0.89	4.30
US$199,000,000 of Series 2007-B Floating Rate Notes Due 2015	292,534	369,936	0.45	2.36
Other	718	-		
	1,744,478	**1,966,298**		
Current	337,673	9,053		
Non-current	1,406,805	1,957,245		
	1,744,478	**1,966,298**		

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

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

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

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

NOTE 21 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2009	**2008**
Financial liabilities designated at fair value	-	66,434

Certain fixed rate borrowed funds have been matched with cross currency swaps as part of a documented currency risk management strategy. An accounting mismatch would arise if the borrowed funds were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt is recorded in the income statement. There is no contractual undiscounted amount that will be required to be paid at maturity of the above debt (2008: TL67,032 thousand). There were no gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value as of 31 December 2009 (2008: None).

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

NOTE 22 - TAXATION

	2009	2008
Current tax expense	(480,911)	(255,320)
Deferred tax income / (expense)	174,965	(61,096)
	(305,946)	**(316,416)**

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

(i) Corporate Tax Rate and Filing

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

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 2009 (2008:20%). Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single installment until the end of the month in which the tax return is to be filed.

(ii) Controlled Foreign Corporations ("CFC")

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

a) 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income like interest, dividend, rent, license fee, or marketable securities sales income;
b) The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country; and,
c) Gross revenue of the CFC must exceed the equivalent of TL100 thousand in a foreign currency in the related period.

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

(iii) Thin Capital

If the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times the shareholders' equity of the borrower company at any time within the relevant fiscal year, the exceeding portion of the borrowing will be considered as thin capital.

NOTE 22 - TAXATION (Continued)

The interest paid or accrued and similar payments on thin capital are re-classified at the end of the relevant fiscal year as distributed dividend from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers. In order to prevent double taxation, previously applied taxation in the hands of the lender that received interest or derived exchange gains will be amended.

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

(iv) Transfer Pricing

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

(v) Anti-tax Heaven Legislation

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

(vi) Dividend Taxation

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

(vii) Advance Corporate Tax

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

NOTE 22 - TAXATION (Continued)

(viii) Inflation Accounting

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the year 2009.

(ix) Tax Assessments

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

(x) Loss Carry Forward

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

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

Exemption for participation in subsidiaries

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

Exemption for sale of preferential right certificates and share premiums

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

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

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

Exemption for participation into foreign subsidiaries

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

NOTE 22 - TAXATION (Continued)

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

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

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

Exemption for income generated from foreign offices and permanent representatives

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

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

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

Exemption for sale of participation shares and property

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

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

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

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

NOTE 22 - TAXATION (Continued)

Exemption for investment allowance

Under the investment allowance regime applicable as of 31 December 2005, capital expenditures, with some exceptions, over TL10 thousand are eligible for investment incentive allowance of 40% is exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 in accordance with provisions of Income Tax Law Temporary Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

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

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

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

According to the Constitutional Court meeting held on 15 October 2009, abolishment of the investment allowance application has been ablolished with the claim of being unconstitutional by Constitutional Court. This decision is published in Official Gazette dated 8 January 2010.

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

	2009	**2008**
Profit before income taxes	**1,898,014**	**1,686,384**
Theoretical income tax at the applicable tax rate of 20%	379,603	337,277
Effect of different tax rates in other countries	2,381	2,178
Non-taxable consolidation adjustments	220	(264)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income exempt from taxation	(19,397)	(22,444)
- Non-deductible expenses for tax purposes	13,435	25,549
- Utilisation of investment incentive	(70,840)	(25,563)
- Utilised tax loss carry forward	591	-
- Other	(47)	(317)
Income tax expense	**305,946**	**316,416**

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

NOTE 22 - TAXATION (Continued)

Deferred income taxes

For all domestic subsidiaries and the Parent, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2009 under the liability method using a principal tax rate of 20% at 31 December 2009 (2008: 20%).

For foreign subsidiaries deferred income taxes calculated on all temporary differences under the liability method using the principal tax rates at 31 December 2009 and 2008 which are as follows:

Country of incorporation	Tax rate (%)	
	2009	2008
Russia	20.00	24.00
Netherlands	25.50	25.50
Azerbaijan	20.00	22.00

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

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

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	2009	2008	2009	2008
Impairment on assets	764,446	775,436	86,013	88,210
Allowance for loan impairment	1,004,005	712,361	200,597	142,540
Pension benefits transferable to SSI (Note 24)	864,059	774,366	172,812	154,873
Reserve for employment termination benefits (Note 24)	100,482	94,889	20,200	19,058
Revaluation of derivative instruments at fair value	612,151	220,782	122,429	43,577
Valuation differences on investment securities	37,755	36,571	7,561	7,314
Other	808,169	269,736	161,472	54,278
Deferred income tax assets	**4,191,067**	**2,884,141**	**771,084**	**509,850**
Difference between carrying value and tax base of property and equipment	953,649	984,944	98,968	105,199
Valuation differences on investment securities	2,843	2,329	306	117
Revaluation of derivative instruments at fair value	884,086	433,651	174,320	84,769
Assets capitalised under finance leases	8,088	8,294	1,618	1,659
Other	66,784	57,686	13,082	10,178
Deferred income tax liabilities	**1,915,450**	**1,486,904**	**288,294**	**201,922**
Deferred income tax assets, net	**2,275,617**	**1,397,237**	**482,790**	**307,928**

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

NOTE 22 - TAXATION (Continued)

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

	2009	**2008**
Balance at 1 January	**307,928**	**359,800**
Charge for the year, net	174,965	(61,096)
Tax assets charged to equity	370	(4,006)
Net investment hedge	588	14,360
Translation difference	(1,061)	(1,130)
Balance at 31 December	**482,790**	**307,928**

There are no deductible temporary differences for which no deferred tax asset is recognised in the balance sheet (2008: None).

Income tax effects relating to components of other comprehensive income

	2009			**2008**		
	Before tax amount	**Tax (expense) benefit**	**Net-of-tax amount**	**Before tax amount**	**Tax (expense) benefit**	**Net-of-tax amount**
Foreign currency translation differences	256	-	256	103,970	-	103,970
Fair value gains on available-for-sale financial assets	78,485	370	78,855	(5,425)	(4,006)	(9,431)
Net investment hedge	(2,941)	588	(2,353)	(71,800)	14,360	(57,440)
Other comprehensive income for the year (net presentation)	**75,800**	**958**	**76,758**	**26,745**	**10,354**	**37,099**

NOTE 23 - OTHER PROVISIONS

	2009	**2008**
Provision for losses on credit related commitments	181,953	173,698
Tax and other legal provisions	96,616	63,775
Provisions on credit cards and promotion campaigns	48,469	56,674
Provision on export commitment estimated liability	38,261	40,495
Other	32,572	42,593
	397,871	**377,235**
Current	14,624	-
Non-current	383,247	377,235

Tax and other legal provisions

At 31 December 2009, the Group is involved in number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL26,668 thousand (2008: TL22,927 thousand) as the best estimate of the amount to settle these potential obligations.

The Group recorded total provision of TL69,948 thousand (2008: TL40,848 thousand) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended 31 December 2009.

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

NOTE 23 - OTHER PROVISIONS (Continued)

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfil their export commitments and has recognised provision of TL38,261 thousand (2008: TL40,495 thousand).

Provision for credit related commitments

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

	2009	2008
Balance at 1 January	**173,698**	**131,872**
Impairment losses on credit related commitments (Note 34)	8,243	41,827
Provision released / used	25	(115)
Translation difference	(13)	114
Balance at 31 December	**181,953**	**173,698**

Movement in other provisions is as follows:

	Tax and other legal provision	Provisions on credit cards and promotion cam.	Export commitment provision	Other	2009 Total	2008 Total
At 1 January	**63,775**	**56,674**	**40,495**	**42,593**	**203,537**	**169,277**
Provision charged	31,972	122,810	2,253	28,427	185,462	253,114
Provision used	(690)	(131,015)	(4,487)	(38,448)	(174,640)	(218,850)
Translation difference	1,559	-	-	-	1,559	(4)
Balance at 31 December	**96,616**	**48,469**	**38,261**	**32,572**	**215,918**	**203,537**

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS

	2009	2008
Balance sheet obligations for:		
- Post employment benefits (pension and medical) transferable to SSI	864,059	774,366
- Reserve for employment termination benefits	100,482	94,889
	964,541	**869,255**
Income statement charge for:		
- Post employment benefits (pension and medical) transferable to SSI	(89,693)	(68,366)
- Reserve for employment termination benefits	(20,609)	(15,308)
	(110,302)	**(83,674)**

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the years 31 December 2009 and 2008.

The cash payments to the Fund by the Group which represent the employers contribution during the year amounting to TL97,241 thousand (2008: TL88,796 thousand) has been included staff cost expenses under operating expenses (Note 33). Total expenses on post employment benefits are amounting to TL186,934 thousand (2008: TL157,162 thousand).

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

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

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

The Group obtained an actuarial report from a registered actuary regarding this fund in accordance with the New Law related to principles and procedures on determining the application of transfer transactions. The actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of TL864,059 thousand at 30 November 2009. (2008: TL774,366 thousand)

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

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

	2009	2008
Present value of funded obligations	1,239,133	1,063,181
- Pension benefits transferable to SSI	*1,077,965*	*1,036,138*
- Post-employment medical benefits transferable to SSI	*161,168*	*27,043*
Fair value of plan assets	(375,074)	(288,815)
Liability in the balance sheet	**864,059**	**774,366**

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	Defined benefit pension plans		Post-employment medical benefits	
	2009	**2008**	**2009**	**2008**
At 1 January	**1,036,138**	**904,367**	**27,043**	**30,999**
Current service cost	57,983	54,336	39,259	34,460
Interest cost	101,542	88,628	2,650	3,038
Contributions by plan participants	49,197	46,104	26,165	24,306
Actuarial losses/(gains)	(60,457)	37,687	97,741	(33,955)
Benefits paid	(106,438)	(94,984)	(31,690)	(31,805)
At 31 December	**1,077,965**	**1,036,138**	**161,168**	**27,043**

The amounts recognised in the income statement of pension fund are as follows:

	Defined benefit pension plans		Post-employment medical benefits	
	2009	**2008**	**2009**	**2008**
Current service cost	57,983	54,336	39,259	34,460
Interest cost	101,542	88,628	2,650	3,038
Expected return on plan assets	(85,517)	(53,993)	-	-
Net actuarial (gains) / losses recognised during the year	(21,199)	72,147	92,216	(41,454)
	52,809	**161,118**	**134,125**	**(3,956)**

The principal actuarial assumptions used were as follows:

	2009 (%)	**2008 (%)**
Discount rate		
- Pension benefits transferable to SSI	*9.80*	*9.80*
- Post-employment medical benefits transferable to SSI	*9.80*	*9.80*

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

	Increase/ Decrease
Effect on the aggregate of the current service cost and interest cost	27
Effect on the defined benefit obligation	6,847

Mortality rate

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

	2009	**2008**
Male	15	15
Female	19	19

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	2009	2008
At 1 January	**288,815**	**229,366**
Actual return on plan assets	85,517	53,993
Employer contributions	57,983	54,336
Employee contributions	49,197	46,104
Benefits paid	(106,438)	(94,984)
At 31 December	**375,074**	**288,815**

Plan assets are as follows:

	2009		2008	
Government bonds and treasury bills	180,520	48%	144,207	50%
Property and equipment	113,826	30%	94,596	33%
Bank placements	29,328	8%	17,240	6%
Short term receivables	26,907	7%	7,662	3%
Other	24,493	7%	25,110	8%
	375,074	**100%**	**288,815**	**100%**

The fair value of the property occupied by the Group is TL44,604 thousand (2008: TL36,114 thousand).

Expected contributions to post-employment benefit plans for the year ending 31 December 2010 are TL197,000 thousand.

(ii) Reserve for employment termination benefits

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

	2009	2008
Balance at 1 January	**94,889**	**96,626**
Interest costs	5,617	5,543
Actuarial gains and losses	6,554	7,466
Annual charge	8,438	2,299
Paid during the year	(15,031)	(17,238)
Translation difference	15	193
Balance at 31 December	**100,482**	**94,889**

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to TL20,609 thousand (2008: TL15,308 thousand) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (63 for women and 64 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL2,427.04 (1 January 2009: TL2,260.05) for each year of service.

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

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

	2009	2008
Discount rate (%)	5.92	6.26
The probability of retirement (%)	94.78	95.53

Additionally, the principal actuarial assumption is that the maximum liability of TL2,427.04 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL2,427.04 (1 January 2009: TL2,260.05) which is effective from 1 January 2010, has been taken into consideration in calculating the reserve for employee benefits of the Parent and its domestic subsidiaries.

NOTE 25 - INSURANCE BUSINESS

	2009	2008
Mathematical reserve	514,133	315,123
Unearned premium reserve	217,717	208,531
Outstanding claim reserve	95,057	67,387
Profit share reserve	23,325	228,221
Insurance IBNR reserve	16,572	15,938
Total	**866,804**	**835,200**

Insurance liabilities and reinsurance assets

Gross insurance liabilities	**2009**	**2008**
Life mathematical reserves	537,458	543,344
Reserve for unearned premiums	272,726	269,495
Claims provision	161,260	133,065
Total	**971,444**	**945,904**
Recoverable from reinsurers		
Reserve for unearned premiums	(55,009)	(60,963)
Claims provision	(49,632)	(49,740)
Total	**(104,641)**	**(110,703)**

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

NOTE 25 - INSURANCE BUSINESS (Continued)

Net insurance liabilities

Life mathematical reserves	537,458	543,344
Reserve for unearned premiums	217,717	208,531
Claims provision	111,629	83,325
Total	**866,804**	**835,200**

Movements in insurance liabilities and reinsurance assets

(a) Claims and loss adjustment expenses:

		2009	
	Gross	**Reinsurance**	**Net**
At the beginning of the year	132,969	(49,644)	83,325
Cash paid for claims settled in the year	78,663	23,473	102,136
Increase/(decrease) in liabilities			
- Current year	78,437	(157,484)	(79,047)
- Prior years	792	4,423	5,215
Total at the end of the year	**290,861**	**(179,232)**	**111,629**
Notified claims			95,057
Insurance IBNR			16,572
Total at the end of the year			**111,629**

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

(b) Provision for unearned premiums:

		2009	
	Gross	**Reinsurance**	**Net**
Reserve for unearned premiums beginning of the year	269,495	(60,964)	208,531
Net change in reserve for unearned premiums	3,231	5,955	9,186
Total at the end of the year	**272,726**	**(55,009)**	**217,717**

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

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

NOTE 25 - INSURANCE BUSINESS (Continued)

c) Sensitivity analysis:

If the loss ratio had increased/decreased by 1%, the expected technical profit for the year would have been TL4,202 thousand higher/lower.

Claim development table as of 31 December 2009:

	2005	2006	2007	2008	2009	Total
Accident year						
Estimate of ultimate claim costs:						
At the end of accident year	245,926	271,588	299,049	338,430	387,699	1,542,692
One year later	5,146	4,758	3,530	1,392	-	14,826
Two years later	956	1,843	1,577	-	-	4,376
Three years later	1,532	1,904	-	-	-	3,436
Four years later	1,173	-	-	-	-	1,173
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	254,733	280,093	304,156	339,822	387,699	1,566,503
Cumulative payments to date	(250,255)	(274,239)	(299,134)	(333,040)	(318,249)	(1,474,917)
Total						91,586
Estimated Insurance IBNR						9,556
Total liability per claim development table						**101,142**
Other assumed claims						10,487
Total liability included in the balance sheet						**111,629**

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

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

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

	2009	2008
At 1 January	**543,344**	**488,552**
Premium of saving policies	52,219	59,569
Investment income	79,668	101,763
Closing balance of non-saving life policies	36,173	33,984
Surrender and policy maturities	(122,186)	(104,981)
Loading expenses	(3,968)	(4,790)
Commission expenses	(5,350)	(6,210)
Risk premium	(5,305)	(6,067)
Beginning balance of non-saving life policies	465	(21,768)
Other movements	(37,602)	3,292
At 31 December	**537,458**	**543,344**

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

NOTE 25 - INSURANCE BUSINESS (Continued)

At 31 December 2009 and 2008, life mathematical reserve balances included the following foreign currency amounts:

	Amount in original currency		TL Equivalent	
	2009	**2008**	**2009**	**2008**
US$	175,955	173,411	264,935	262,248
EUR	54,428	32,461	55,513	69,493
			320,448	**331,741**

	2009	**2008**
Earned premiums, net of reinsurance		
Gross premiums written	698,646	695,215
Outward reinsurance premiums	(147,082)	(170,461)
Change in reserve for unearned premiums, net of reinsurance	(18,289)	(98,576)
Claims incurred, net of reinsurance		
Claims paid, net	(511,436)	(448,881)
Gross amount	(579,893)	(521,642)
Reinsurers' share	68,457	72,761
Change in claims provision, net of reinsurance	(12,789)	(14,974)
Commissions, net	(4,117)	(5,011)
Other income/(expense), net	17,599	122,913
Income from non-life insurance business	**22,532**	**80,225**

NOTE 26 - OTHER LIABILITIES

	2009	**2008**
Credit card payables	2,231,562	2,053,187
Miscellaneous payables to customers	431,387	212,031
Blocked accounts	277,609	271,402
Clearing accounts	185,972	174,087
Premium and bonuses payable to personnel	130,672	145,594
Taxes other than income and withholdings	111,371	184,704
Provision for unused annual vacation	65,720	59,205
Import deposit and transfer orders	58,188	265,334
Unearned income	39,037	58,061
Advances taken	24,921	10,884
Saving Deposits Insurance Fund payable	15,550	15,490
Other	544,066	397,709
Total	**4,116,055**	**3,847,688**
Current	4,105,787	3,693,136
Non-current	10,268	154,552

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

NOTE 27 - ACQUISITIONS AND MERGERS

(i) Mergers, transfers and acquisitions in the year 2009

As a result of the Extraordinary General Assembly Meetings, dated 30 June 2009, of Yapı Kredi Menkul, and of Unicredit Menkul Değerler A.Ş. ("UCM") it has been decided that Yapı Kredi Menkul's intermediary activities function, which serves corporate clients, was added to UCM's capital as capital in-kind through a partial spin-off over its book values at 31 December 2008. As a result of this operation, the share of YKB in Yapı Kredi Menkul's capital did not change. According to the spin-off agreement, the Bank has acquired a share in UCM share capital (10.73%). The fair value of this business line was TL1,432 thousand and classified as share certificates under available for sale portfolio.

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

Nominal share capital amount of TL34,897,132.53 (35.28% of the capital), owned by KFS in Yapı Kredi Menkul have been purchased by YKB in return for USD158,754,689.63 and the cost of the share purchase has been paid to KFS as TL188,617 thousand converted with the CBRT USD exchange rate at 15 February 2008.

Besides, the nominal share capital amount of EUR32,672,880.00 (67.24% of the capital), owned by KFS in Yapı Kredi NV has been purchased by YKB in return for EUR97,502,661.71 and the cost of the share purchase has been paid to KFS as TL165,062 thousand converted with the CBRT EUR exchange buying rate at 11 January 2008.

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

NOTE 28 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 434,705,128.40 thousand (2008: 434,705,128.40 thousand) authorised shares with a nominal value of TL0.01 each. The Company's authorised capital amounts to TL4,347,051 thousand (2008: TL4,347,051 thousand). In 2008, the Bank increased its issued capital by TL920,000,000 from TL3,427,051,284 to TL4,347,051,284 all in cash within the Bank's registered capital ceiling of TL5,000,000,000.

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

	2009		2008	
Shareholders	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.80	3,555,712
Other	18.20	791,339	18.20	791,339
Historical share capital	**100.00**	**4,347,051**	**100.00**	**4,347,051**
Adjustment to share capital		(60,471)		(60,471)
Share premium		535,679		535,679
Total share capital and share premium		**4,822,259**		**4,822,259**

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

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES

	2009	2008
Statutory reserve	96,245	44,114
Translation reserves	113,017	112,761
Revaluation reserve - available-for-sale investments	94,469	16,108
Hedging reserves	(67,738)	(65,385)
Total other reserves	**235,993**	**107,598**
Retained earnings	**3,594,934**	**2,065,235**

Included in retained earnings are costs directly attributable to the issue of new shares shown in equity as a deduction amounting to TL1,844 thousand during the year 2008.

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2009	**44,114**	**16,108**	**112,761**	**(65,385)**	**107,598**
Net change in available-for-sale Investments, net of tax	-	78,361	-	-	78,361
Gains on hedges of a net investment in a foreign operation	-	-	-	(2,353)	(2,353)
Currency translation differences	-	-	256	-	256
Transfer to statutory reserves	52,131	-	-	-	52,131
At 31 December 2009	**96,245**	**94,469**	**113,017**	**(67,738)**	**235,993**

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

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

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

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

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES (Continued)

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

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

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

NOTE 30 - NET INTEREST INCOME

	2009	2008
Interest income on:		
Loans and advances:		
- to banks	66,803	133,831
- to customers	5,283,023	5,365,649
Trading and investment securities	1,422,673	1,575,290
Derivative financial instruments	396,903	82,569
Financial leases	254,671	297,227
Reserve deposits	114,668	218,706
Other	96,801	63,460
Total interest income	**7,635,542**	**7,736,732**
Interest expense on:		
Due to customers	(2,866,166)	(3,983,091)
Other borrowed funds	(477,008)	(578,328)
Derivative financial instruments	(319,171)	(148,337)
Securities issued	(44,863)	(82,530)
Repurchase agreement	(62,832)	(120,044)
Deposits from banks	(28,452)	(154,808)
Other	(2,536)	(850)
Total interest expense	**(3,801,028)**	**(5,067,988)**
Net interest income	**3,834,514**	**2,668,744**

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

NOTE 31 - NET FEE AND COMMISSION INCOME

	2009	2008
Fee and commission income on:		
Credit/debit cards	764,711	775,557
Banking services	587,524	478,167
Assets under management	251,363	229,036
Loans		
- Credit related commitments	213,660	181,364
- Loans and advances	115,876	86,973
Brokerage	55,858	31,879
Insurance products	37,216	25,080
Factoring	8,947	10,978
Other	41,064	20,502
Total fee and commission income	**2,076,219**	**1,839,536**
Fee and commission expense on:		
Credit/debit cards	(201,379)	(238,363)
Insurance products	(55,039)	(40,450)
Brokerage	(4,798)	(6,028)
Factoring	(2,619)	(4,451)
Other borrowed funds	(1,258)	(1,232)
Other	(86,430)	(43,752)
Total fee and commission expense	**(351,523)**	**(334,276)**
Net fee and commission income	**1,724,696**	**1,505,260**

NOTE 32 - NET TRADING, HEDGING AND FAIR VALUE INCOME

	2009	2008
Foreign exchange:		
- Translation gains less losses of trading securities	7,829	(19)
- Transaction gains less losses	251,789	95,199
Interest rate instruments	(155,823)	(43,058)
Equities	15,525	(9,931)
Net income from financial instruments designated at fair value	(642)	(3,993)
	118,678	**38,198**

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

Net gains from investment securities amounting to TL33,225 thousand (2008: TL35,574 thousand losses) comprise of net results on disposals of available for sale financial assets.

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

NOTE 33 - OTHER OPERATING EXPENSES

	2009	2008
Staff costs	**(1,148,078)**	**(1,150,268)**
Depreciation on property and equipment (Note 15)	(145,629)	(126,239)
Amortisation of intangible assets (Note 14)	(38,296)	(40,577)
Depreciation and amortisation	**(183,925)**	**(166,816)**
(Impairment charge) / reversal of impairment/ on property and equipment (Note 15)	3,888	(1,841)
Impairment charge on assets held for resale (Note 16)	-	(522)
Impairment charge	**3,888**	**(2,363)**
Rent expenses	(118,609)	(96,122)
Communication expenses	(93,509)	(102,895)
Marketing and advertisement costs	(63,402)	(90,861)
Sundry taxes and duties	(62,396)	(66,852)
Payment to saving deposit insurance fund	(62,073)	(37,989)
Utilities	(36,737)	(30,599)
Repair and maintenance expenses	(28,642)	(36,499)
Audit and consultancy fees	(21,139)	(27,331)
Charity	(377)	(4,245)
Other	(374,062)	(299,406)
General administrative expenses	**(860,946)**	**(792,799)**
Total	**(2,189,061)**	**(2,112,246)**

NOTE 34 -IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

	2009	2008
Impairment losses on loans and receivables (Note 10)	(1,608,283)	(381,391)
Impairment losses on credit related commitments (Note 23)	(8,243)	(41,827)
	(1,616,526)	**(423,218)**

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

NOTE 35 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	2009		2008	
	Assets	**Related liability**	**Assets**	**Related liability**
Trading securities (Note 8)	66,654	51,748	106,454	89,893
Investment securities (Note 11)	1,393,050	1,183,458	2,513,634	1,973,472
Other assets pledged [1]	215,980	-	136,649	-
Total	**1,675,684**	**1,235,206**	**2,756,737**	**2,063,365**

(1) Other assets pledged are the collaterals given to the counter parties of the interest rate swap transactions whose total contractual amount is TL6,302,306 thousand (2008: TL3,179,352 thousand) and the additional collaterals given in relation to the funds obtained under repurchase agreements (Note 17).

Available-for-sale and held-to-maturity securities whose total carrying amount is TL1,459,704 thousand as of 31 December 2009 (2008: TL2,620,088 thousand) are pledged to banks and other financial institutions against borrowed funds (Note 19) and funds obtained under repurchase agreements (Note 17 and Note 18). Total amount of funds obtained under repurchase agreements is TL1,235,206 thousand as of 31 December 2009 (2008: TL2,063,365 thousand). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions (Note 11).

NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

NOTE 36 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Legal proceedings

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

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

Credit related commitments

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

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

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

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

2009(1)	**Indefinite**	**Not later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
Letter of credits	1,395,290	944,002	398,943	-	2,738,235
Letter of guarantees	7,213,576	2,104,208	3,076,144	902,813	13,296,741
Acceptance credits	151,669	-	-	-	151,669
Other commitments	100,362	77,980	200,309	20,759	399,410
Total	**8,860,897**	**3,126,190**	**3,675,396**	**923,572**	**16,586,055**

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

(1) Based on original maturities.

NOTE 37 - SEGMENT ANALYSIS

Through its new organisational structure launched in February 2009 aimed at further enhancing the customer-focused divisionalised service model as well as supporting the performances of business units in closer collaboration with product factories, The Group carries out its banking operations through three main business units: (1) retail banking (including credit cards and SME banking), (2) corporate and commercial banking (3) private banking and wealth management.

The Group's retail banking activities include credit cards, SME (small and medium size enterprises) banking and individual banking. Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. The clubs and programs under the umbrella of the World brand include Gold Club, Platinum Club, Crystal Club, Travel Club (Travel Program and VIP Travel Program), Adios Card, Play Club (Young Employees Program and Student Program), Business Club (Corporate Program, Trio Program, Company Program and SME Program), Share Program and Communication Program.

Corporate and Commercial Banking is organised into two sub-segments: commercial banking, which serves mid-sized companies; and corporate banking, which serves large multinational companies. Corporate and commercial banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its private banking and wealth management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to private banking customers are time deposits, fiduciary deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private banking services are enhanced by investment advisory and portfolio management services provided by the Group's portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

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

Chief Operating Decision Maker manages segment performance based on IFRS consolidated figures.

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

NOTE 37 - SEGMENT ANALYSIS (Continued)

2009	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other	Eliminations	Group
Segment revenue	2,775,312	1,332,593	363,466	116,403	1,655,245	(249,071)	5,993,948
Segment expenses	(2,356,880)	(461,282)	(107,802)	(52,929)	(1,181,609)	59,151	(4,101,351)
Segment result	418,432	871,311	255,664	63,474	473,636	(189,920)	1,892,597
Operating profit							**1,892,597**
Share of results of associates							5,417
Profit before tax							**1,898,014**
Income tax expense							(305,946)
Profit for the year							**1,592,068**
Segment assets	19,207,596	22,926,250	809,251	3,952,931	24,779,779	(710,435)	70,965,372
Associates							58,939
Total assets							**71,024,311**
Segment liabilities	20,518,455	15,860,713	9,989,572	3,350,094	13,302,960	(703,886)	62,317,908
Total liabilities							**62,317,908**
Other segment items							
Capital expenditure					(203,691)		(203,691)
Depreciation and amortisation					(183,925)		(183,925)
Impairment charge					3,888		3,888
Other non-cash expenses					(1,912,290)		(1,912,290)

2008	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other	Eliminations	Group
Segment revenue	2,329,407	1,112,725	288,802	93,821	916,727	(186,469)	4,555,013
Segment expenses	(1,299,166)	(291,629)	(117,686)	(57,565)	(1,205,810)	99,560	(2,872,296)
Segment result	1,030,241	821,096	171,116	36,256	(289,083)	(86,909)	1,682,717
Operating profit							**1,682,717**
Share of results of associates							3,667
Profit before tax							**1,686,384**
Income tax expense							(316,416)
Profit for the year							**1,369,968**
Segment assets	18,367,894	23,331,433	551,719	3,920,005	25,055,298	(1,388,648)	69,837,701
Associates							55,593
Total assets							**69,893,294**
Segment liabilities	19,367,453	18,160,125	8,467,738	3,374,032	14,866,878	(1,381,947)	62,854,279
Total liabilities							**62,854,279**
Other segment items							
Capital expenditure					(227,083)		(227,083)
Depreciation and amortisation					(166,816)		(166,816)
Impairment charge					(2,363)		(2,363)
Other non-cash expenses					(760,050)		(760,050)

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

NOTE 38 - RELATED PARTY TRANSACTIONS

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

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

(i) Balances with related parties:

	2009		2008	
	Total	**Share in total %**	**Total**	**Share in total %**
Loans and advances to customers, net	1,073,663	3	595,140	1
Trading and investment securities	22,359	-	76,298	3
Derivative financial instruments	20,133	3	2,458	1
Loans and advances to banks	1,423	-	210,261	6
Other assets	139	-	4,473	-
Total assets	**1,117,717**		**888,630**	
Due to customers	4,270,341	10	4,241,753	10
Other borrowed funds	1,167,800	14	1,353,230	14
Derivative financial instruments	3,395	1	9,585	4
Other liabilities	1,694	-	1,371	-
Deposits from banks	166	-	24,910	2
Total liabilities	**5,443,396**		**5,630,849**	
Commitment under derivative instruments	1,088,205	3	711,872	4
Credit related commitments	606,281	4	633,294	4
Total commitments and contingent liabilities	**1,694,486**		**1,345,166**	

(ii) Transactions with related parties:

	2009		2008	
	Total	**Share in total %**	**Total**	**Share in total %**
Interest income on loans and advances to customers	91,771	2	105,898	2
Fee and commission income	27,294	1	10,486	1
Interest income on financial leases	1,414	1	2,689	1
Interest income on loans and advances to banks	14	-	102	-
Other operating income	9	-	1,899	1
Total interest and fee income	**120,502**		**121,074**	
Interest expense on deposits	(328,426)	11	(447,310)	11
Interest expense on funds borrowed	(23,864)	5	(28,409)	4
Other operating expense	(8,820)	-	(514)	-
Fee and commission expense	(2)	-	(4,131)	1
Total interest and fee expense	**(361,112)**		**(480,364)**	

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

	2009	**2008**
Loans and advances to customers, net	177	339
Interest income on loans and advances to customers	10	16
Due to customers	35,932	25,866
Interest expense on deposits	369	592
Fee and commission income	-	-
Commitments and contingent liabilities	-	-

Salaries and other benefits paid to the Group’s key management approximately amount to TL35,238 thousand as of 31 December 2009 (2008: TL31,304 thousand).

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

NOTE 39 - ASSETS UNDER MANAGEMENT

At 31 December 2009, the Group manages 29 open-ended mutual funds (2008: 25) and 22 private pension funds (2008: 22), which were established under the Turkish Capital Market Board Regulations.

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

Name of the Fund	2009 %	2008 %	2009 TL	2008 TL
Mutual Funds				
Yapı ve Kredi Bankası A.Ş. B Tipi Likit Fonu	0.0136	0.0125	3,439,527	3,397,743
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Likit Fonu	0.0090	0.0090	460,822	313,187
Yapı ve Kredi Bankası A.Ş. B Tipi Değişken Fonu	0.0070	0.0070	382,102	257,954
Yapı ve Kredi Bankası A.Ş. B Tipi Orta Vadeli Tahvil ve Bono Fonu	0.0060	0.0060	388,685	180,687
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Gökkuşağı Yatırım Fonu	-	0.0098	-	86,011
Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Uzun Vadeli Tahvil ve Bono Fonu	0.0060	0.0060	128,173	58,545
Yapı Kredi Bankası A.Ş. B tipi Özel Bankacılık Değişken Fonu	0.0055	0.0055	57,945	40,890
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Karma Fonu	0.0030	0.0030	50,502	38,738
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Özel Portföy Yönetimi Değişken Fonu	0.0050	0.0050	37,107	29,530
Yapı ve Kredi Bankası A.Ş. B Tipi Büyüme Amaçlı Değişken Fon	0.0070	0.0070	76,696	28,020
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Birinci Yatırım Fonu	-	0.0074	-	17,510
Yapı ve Kredi Bankası A.Ş. A Tipi Özel Bankacılık İMKB Ulusal 30 Endeksi Fonu	0.0028	0.0028	13,607	17,147
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Değişken Fonu	0.0120	0.0120	26,492	16,825
Yapı ve Kredi Bankası A.Ş. B Tipi Özel Bankacılık Büyüme Amaçlı Değişken Fonu	0.0055	0.0055	54,342	15,341
Yapı ve Kredi Bankası A Tipi Hisse Fonu	0.0100	0.0100	25,704	14,522
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi İMKB Ulusal 30 Endeks Fonu	0.0120	0.0120	17,307	10,583
Yapı ve Kredi Bankası A.Ş. A Tipi İMKB Ulusal 100 Endeksi Fonu	0.0100	0.0100	12,856	6,115
Yapı ve Kredi Bankası A.Ş. B Tipi Dünya Fonları Fon Sepeti Fonu	0.0014	0.0014	8,599	3,883
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Özel Portföy Yönetimi Değişken Fonu	0.0080	0.0080	3,162	2,525
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Koç Şirketleri İştirak Fonu	0.0100	0.0100	6,916	1,860
Yapı ve Kredi Bankası A.Ş. A Tipi Karma Fonu	0.0100	0.0100	4,503	1,169
Yapı ve Kredi Bankası A.Ş. B Tipi Tahvil Bono (Eurobond) Fonu	0.0080	0.0080	7,750	972
Yapı ve Kredi Bankası A.Ş. A Tipi Yabancı Menkul Kıymetler Fonu	0.0100	0.0100	951	876
Yapı ve Kredi Bankası A.Ş. A Tipi Allianz Sigorta Özel Fon	0.0027	0.0027	399	219
Yapı Kredi Bankası A.Ş. B Tipi Kurumsal Değişken Fon	-	0.0021	-	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili V Yatırım Fonu	0.0033	-	14,471	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Frekans Alt Fonu	0.0001	-	11,169	-
Yapı ve Kredi Bankası A.Ş. İstanbul Serbest Yatırım Fonu	0.0055	-	30,772	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Faiz Frekansı Alt Fonu	0.0005	-	15,299	-
Total mutual funds			**5,275,858**	**4,540,852**

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

NOTE 39 - ASSETS UNDER MANAGEMENT (Continued)

Name of the Fund	2009 %	2008 %	2009 TL	2008 TL
Pension funds				
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yat. Fonu	0.0055	0.0055	548,379	373,813
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0052	0.0052	272,382	205,917
Yapı Kredi Emeklilik A.Ş. Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	272,718	185,133
Yapı Kredi Emeklilik A.Ş. Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0055	0.0055	216,793	173,339
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Yatırım Fonu	0.0055	0.0055	162,602	150,105
Allianz Hayat ve Emeklilik A.Ş. Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0052	0.0052	50,748	50,280
Yapı Kredi Emeklilik A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yat. Fonu	0.0055	0.0055	79,957	37,489
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	-	0.0055	-	19,291
Allianz Hayat ve Emeklilik A.Ş. Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0075	0.0075	27,566	17,591
Allianz Hayat ve Emeklilik A.Ş. İhtisaslaşmış İMKB Ulusal 30 Endeksi Emeklilik Yatırım Fonu	0.0082	0.0082	34,341	16,548
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	18,160	14,451
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0027	14,370	7,170
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları (Dövize End.) Emeklilik Yatırım Fonu	0.0058	0.0058	8,504	6,857
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (Euro)	0.0055	0.0055	7,249	4,032
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Uluslararası Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	4,459	3,983
Yapı Kredi Emeklilik A.Ş. Esnek (TL) Grup Emeklilik Fonu	0.0028	0.0028	14,346	2,547
Yapı Kredi Emeklilik A.Ş. Para Piyasası Emanet Likit – Karma Emeklilik Yat. Fonu	0.0055	0.0055	6,540	2,546
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu	0.0055	0.0055	2,370	2,073
Allianz Hayat ve Emeklilik A.Ş. Para Piyasası Emanet Likit Kamu Emeklilik Yatırım Fonu	0.0060	0.0060	1,097	560
Yapı Kredi Emeklilik A.Ş. Esnek Döviz Grup Emeklilik Yatırım Fonu	0.0028	0.0028	1,590	544
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0027	0.0027	1,163	364
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Gelir Amaçlı Döviz Cinsi Karma Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0027	199	243
Total pension funds			**1,745,533**	**1,274,876**
Total			**7,021,391**	**5,815,728**

NOTE 40 - POST BALANCE SHEET EVENTS

1) At the Board of Directors meeting held on 15 March 2010, the decision was taken to sell the shares of UniCredit Menkul Değerler A.Ş. amounting to 10.73% which are owned by YKB, to KFS in return for TL8,548 thousand in line with the valuation report dated 11 March 2010.

2) On 15 March 2010, Board of Directors resolved to sell non-performing loan portfolios of SME loans, retail loans and credit cards through an auction.

   As of 28 February 2010:

   i) The retail loan portfolio, amounting to TL74.6 mln, was decided to be sold to Standart Varlık Yönetimi A.Ş. in return for TL6.5 mln.

   ii) The Credit Card portfolio, amounting to TL382.0 mln, was decided to be sold to Girişim Varlık Yönetim A.Ş. in return for TL32.4 mln.

   iii) The SME loan portfolio, amounting to TL224.4 mln, was decided to be sold to LBT Varlık Yönetim A.Ş. in return for TL31.2 mln.

   The sale proceeds are expected to be collected by the end of March 2010 and will result in a pretax income of TL3.0 mln after legal expenses which will be booked in YKB’s financials as of 31 March 2010 after the finalization of the transaction.

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