



**GSD Yatırım Bankası  
Anonim Şirketi  
and Its Subsidiary**

**Consolidated Financial Statements  
With  
Independent Auditors' Report Thereon  
31 December 2008**

Akis Bağımsız Denetim ve Serbest  
Muhasebeci Mali Müşavirlik  
Anonim Şirketi

13 February 2009

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*This report contains 1 page of independent auditors' report and 50 pages of consolidated financial statements together with explanatory notes.*

## **GSD Yatırım Bankası Anonim Şirketi and Its Subsidiary**

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## Independent Auditors' Report

To the Board of Directors of  
GSD Yatırım Bankası Anonim Şirketi;

We have audited the accompanying consolidated financial statements of GSD Yatırım Bankası Anonim Şirketi (the "Bank") and its subsidiary (collectively the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' responsibility*

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

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

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

### *Opinion*

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

13 February 2009  
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

# GSD Yatırım Bankası A.Ş. and Its Subsidiary

## Consolidated Balance Sheet

As at 31 December 2008

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

	<i>Notes</i>	<b>2008</b>	<b>2007</b>
<b>Assets</b>			
Cash and balances with Central Bank	11	1,362	11,409
Due from banks	12	26,231	9,693
Trading assets	13	1,776	460
Derivative financial instruments	14	1,115	21
Loans and advances to customers	15	38,306	127,297
Investment securities	16	3,115	10,102
Property and equipment	17	303	434
Intangible assets	18	53	33
Deferred tax assets	19	183	327
Other assets	20	3,439	129
<b>Total assets</b>		<b>75,883</b>	<b>159,905</b>
<b>Liabilities</b>			
Derivative financial instruments	14	1,252	89
Current accounts of loan customers	21	1,223	41,620
Funds borrowed	22	12,696	57,606
Provisions	23	512	411
Other liabilities	24	1,070	1,047
Income taxes payable	10	39	637
<b>Total liabilities</b>		<b>16,792</b>	<b>101,410</b>
<b>Shareholders' equity</b>			
Share capital	25	25,000	25,000
Adjustment to share capital	25	16,813	16,813
Available-for-sale reserve		(4,058)	4,613
Retained earnings		21,336	12,069
<b>Total equity</b>		<b>59,091</b>	<b>58,495</b>
<b>Total liabilities and equity</b>		<b>75,883</b>	<b>159,905</b>
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The accompanying notes are an integral part of these consolidated financial statements.

# GSD Yatırım Bankası A.Ş. and Its Subsidiary

## Consolidated Income Statement

For the year ended 31 December 2008

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

	<i>Notes</i>	<b>2008</b>	<b>2007</b>
<b>Interest income</b>			
Interest on loans and advances to customers		25,880	17,738
Interest on securities		272	390
Interest on deposits with banks and other financial institutions		851	604
Interest on financial leases		83	240
Other interest income		1	6
<b>Total interest income</b>		<b>27,087</b>	<b>18,978</b>
<b>Interest expense</b>			
Interest on funds borrowed and other money market deposits		(4,679)	(3,034)
Interest on current accounts of loan customers		(4,529)	(3,235)
Interest on other money market placements		(129)	(194)
<b>Total interest expense</b>		<b>9,337</b>	<b>6,463</b>
<b>Net interest income</b>		<b>17,750</b>	<b>12,515</b>
Fees and commission income	6	1,334	1,564
Fees and commission expense	6	(161)	(141)
<b>Net fee and commission income</b>		<b>1,173</b>	<b>1,423</b>
Net trading income / (loss)	7	214	(239)
Foreign exchange gains, net		190	133
Other operating income		282	418
		<b>686</b>	<b>312</b>
<b>Operating income</b>		<b>19,609</b>	<b>14,250</b>
Net impairment loss on financial assets		(551)	412
Personnel expenses	8	(4,758)	(3,473)
Depreciation and amortisation		(113)	(104)
Taxes other than on income		(432)	(231)
Other operating expenses	9	(2,717)	(1,815)
<b>Profit before income tax</b>		<b>11,038</b>	<b>9,039</b>
Income tax – current	10	(1,627)	(2,360)
Income tax – deferred	10	(144)	180
<b>Net profit for the year</b>		<b>9,267</b>	<b>6,859</b>

The accompanying notes are an integral part of these consolidated financial statements.

## GSD Yatırım Bankası A.Ş. and Its Subsidiary

### Consolidated Statements of Changes in Equity

For the year ended 31 December 2008

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

	Share capital	Adjustment to share capital	Available- for- sale reserve	Retained earnings	Total
At 1 January 2007	25,000	16,813	2,458	5,210	49,481
Net change in fair value of available-for-sale financial assets	-	-	2,155	-	2,155
Net profit for the year	-	-	-	6,859	6,859
<b>At 31 December 2007</b>	<b>25,000</b>	<b>16,813</b>	<b>4,613</b>	<b>12,069</b>	<b>58,495</b>
Net change in fair value of available-for-sale financial assets	-	-	(8,671)	-	(8,671)
Net profit for the year	-	-	-	9,267	9,267
<b>At 31 December 2008</b>	<b>25,000</b>	<b>16,813</b>	<b>(4,058)</b>	<b>21,336</b>	<b>59,091</b>

The accompanying notes are an integral part of these consolidated financial statements.

# GSD Yatırım Bankası A.Ş. and Its Subsidiary

## Consolidated Statement of Cash Flows

For the year ended 31 December 2008

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

	<i>Notes</i>	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities</b>			
Interest received		26,820	18,806
Interest paid		(9,337)	(6,071)
Fees and commissions received		1,334	1,564
Trading income		287	(239)
Recoveries of loans		(1,365)	1,351
Fees and commissions paid		(161)	(141)
Cash payments to employees		(4,545)	(3,275)
Vacation pay liability paid		(21)	-
Employee termination benefits paid		(91)	-
Cash received from other operating activities		282	-
Cash paid for other operations		(2,909)	(1,991)
Income taxes paid		(2,225)	(1,686)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>8,069</b>	<b>8,318</b>
<b>Changes in operating assets and liabilities</b>			
Time deposits with original maturities of more than three months		-	(234)
Trading assets		(1,130)	7,960
Reserve deposit at Central Bank of Turkish Republic		1,902	(1,490)
Loans and advances to customers		89,735	(62,252)
Other assets		(3,340)	448
Current account of loan customers		(40,397)	40,671
Funds borrowed		(44,595)	22,441
Other liabilities and provisions		26	(6,373)
<b>Net cash provided by operating activities</b>		<b>10,270</b>	<b>9,489</b>
<b>Cash flows from investing activities</b>			
Purchases of available-for-sale securities		(1,684)	-
Purchases of property and equipment	17	(234)	(369)
Proceeds from the sale of property and equipment and intangible assets		3	101
Purchase of intangible assets	18	(30)	(35)
<b>Net cash used in investing activities</b>		<b>(1,945)</b>	<b>(303)</b>
<b>Net increase in cash and cash equivalents</b>			
Net increase in cash and cash equivalents		8,325	9,186
Cash and cash equivalents at 1 January	26	18,038	8,852
<b>Cash and cash equivalents at 31 December</b>		<b>26,363</b>	<b>18,038</b>

The accompanying notes are an integral part of these consolidated financial statements.

# GSD Yatırım Bankası A.Ş. and Its Subsidiary

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

## 1. Reporting entity

GSD Yatırım Bankası Anonim Şirketi (the “Bank”) was registered on 22 December 1998 at Turkish Trade Registry Gazette, in accordance with the decision number 98/10962 taken by the Board of Ministers on 20 April 1998. The Bank was registered as an investment bank and commenced its operations on 7 April 1999, after obtaining the necessary banking permissions from the Turkish Undersecretariat of Treasury (the “Treasury”) and the Central Bank of Turkey (the “Central Bank”) on 24 February 1999.

The registered office address of the Bank is Aydınevler Mahallesi, İnönü Caddesi, GSD Binası No: 14, Küçükyalı 81570, Maltepe - Istanbul, Turkey.

The consolidated financial statements of the Bank are authorised for issue by the management on 13 February 2009. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue. The parent and ultimate parent of the Bank is GSD Holding A.Ş. (“GSD Holding”) whose majority shares are publicly traded.

### Nature of activities of the Group

The Bank carries out its activities as investment banking. The Bank’s corporate services mainly include corporate lending, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as mortgages, home equity, vehicle and consumer loans to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets.

Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending cash and non cash loans
- Providing collection and payment services, fund transfer and correspondent banking services
- Cheques and notes payable transactions
- Providing custody service
- Foreign exchange transactions
- Trading of capital market instruments, derivatives and money market instruments
- Intermediary services in money markets
- Financial lease transactions

As at 31 December 2008, the Bank provides services through its head office. As at 31 December 2008, the number of employees of the Bank is 37 (2007: 50).

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiary are referred to as “the Group”.

The subsidiary included in consolidation and effective shareholding percentage of the Group as at 31 December 2008 and 2007 are as follows:

	Place of incorporation	Principal activity	Effective shareholding and voting rights (%)	
			2008	2007
GSD International Limited	Douglas / UK	Investing	100	100



# **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

## **2. Basis of preparation**

### **2.1 Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The Bank maintains its books of account and prepares its statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. GSD International Limited (“GSD International”), the consolidated subsidiary, maintains its books of account in accordance with Isle of Man Companies Acts.

The consolidated financial statements have been prepared from statutory financial statements of the Bank and its subsidiary and presented in accordance with IFRS in New Turkish Lira (“YTL”) with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accounting policies have been consistently applied by the Group and are consistent with those used in previous year ended 31 December 2007.

### **2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value.

### **2.3 Functional and presentation currency**

These consolidated financial statements are presented in YTL, which is the Bank’s functional currency. Except as indicated, financial information presented in YTL has been rounded to the nearest thousand.

The restatement for the changes in the general purchasing power of YTL until 31 December 2005 is based on IAS 29 (“Financial Reporting in Hyperinflationary Economies”). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous year be restated in the same terms.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgment when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realise or settle the same values of assets and liabilities as indicated in the consolidated balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

As at 31 December 2008 and 2007, the foreign subsidiary (GSD International, which was previously classified as integral foreign operation) has the same functional currency as the reporting entity.

# **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

## **2. Basis of preparation (continued)**

### **2.4 Use of estimates and judgments**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are as follows;

#### **Key sources of estimation uncertainty**

##### *Impairment of available-for-sale equity instruments:*

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 judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

##### *Allowances for credit losses*

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

##### *Determining fair values*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

## **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

*(Currency -Thousands of New Turkish Lira (YTL))*

### **2. Basis of preparation** *(continued)*

#### **2.4 Use of estimates and judgments** *(continued)*

##### **Key sources of estimation uncertainty** *(continued)*

###### *Income taxes*

The Group is subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly.

###### *Employee termination benefits*

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 23 are reviewed regularly.

# GSD Yatırım Bankası A.Ş. and Its Subsidiary

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

## 3. Significant accounting policies

The accounting policies set out below have been applied constantly to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

### 3.1 Basis of consolidation

#### i) Subsidiaries

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

Subsidiary is fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and ceases to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiary is prepared for the same reporting period as the parent Bank, using consistent accounting policies.

#### ii) Transactions eliminated on consolidation

All intra-group balances, transactions, and unrealised gains on intra-group transactions are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### 3.2 Foreign currency transactions

The consolidated financial statements are presented in YTL, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

GSD International has the same functional currency as the reporting entity.

Foreign currency translation rates used by the Group are as follows:

	EUR / YTL (full)	USD / YTL (full)
31 December 2006	1.8515	1.4056
31 December 2007	1.7102	1.1647
31 December 2008	2.1408	1.5123

# **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

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

### **3.3 Interest**

Interest income and expense are recognised in the consolidated income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in the income statement include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

### **3.4 Fees and commission**

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

### **3.5 Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

### **3.6 Dividends**

Dividends are recognised when the shareholders' right to receive the payments is established.

### **3.7 Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

## **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

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

#### **3.7 Income tax expense (continued)**

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

#### **3.8 Financial assets and liabilities**

##### *Recognition*

The Group initially recognises cash and balances with the Central Bank, due from banks, loans and advances to customers, current account of loan customers and funds borrowed on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

##### *Classification*

See accounting policies 3.9, 3.10, 3.11, 3.12, 3.13.

##### *Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### *Offsetting*

Financial assets and liabilities are set off and the net amount presented in the consolidated balance sheet when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

## **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

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

#### **3.8 Financial assets and liabilities (continued)**

##### *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

##### *Fair value measurement*

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

##### *Identification and measurement of impairment*

On each balance sheet date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristic.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

# **GSD Yatırım Bankası A.Ş. and Its Subsidiary**

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2008

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

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

### **3.8 Financial assets and liabilities (continued)**

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

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. Any subsequent reversal of impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of the reversal should not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in the consolidated income statement.

### **3.9 Cash and cash equivalents**

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the consolidated balance sheet.

### **3.10 Trading assets and liabilities**

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the consolidated balance sheet with transaction costs taken directly to consolidated income statement. All changes in fair value are recognised as part of net trading income in consolidated income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.



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

#### **3.11 Derivative financial instruments**

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative 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.

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

#### **3.12 Due from banks and loans and advances to customers**

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a due from banks, and the underlying asset is not recognised in the Group's financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **3.13 Investment securities**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

##### *(i) Held-to-maturity*

As at 31 December 2008 and 2007, the Group does not have any investment securities held-to-maturity.

##### *(ii) Fair value through profit or loss*

As at 31 December 2008 and 2007, the Group does not have any investment securities at fair value through profit or loss.

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

### **3.13 Investment securities (continued)**

#### *(iii) Available-for-sale*

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

### **3.14 Property and equipment**

#### *Recognition and measurement*

The costs of the property and equipment are restated for the effects of inflation to the end of 31 December 2005, less accumulated depreciation and amortisation and impairment losses. Property equipment acquired after 31 December 2005 are reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

#### *Subsequent costs*

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

#### *Depreciation*

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Motor vehicles	5 years
Furniture and fixtures	5 – 50 years
Leased assets	shorter of 5 – 10 years and the lease term

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

### **3.15 Intangible assets**

The costs of the intangible assets are restated for the effects of inflation to the end of 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Intangible assets comprises purchased software.

Amortisation is recognised in consolidated income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are four to fifteen years.

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

#### **3.16 Assets held for sale**

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

#### **3.17 Leases**

##### **The Group as lessee**

##### *Operating leases*

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

##### *Finance leases*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

##### **The Group as lessor**

##### *Finance leases*

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

#### **3.18 Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

#### **3.18 Impairment of non-financial assets (continued)**

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **3.19 Deposits, current accounts of loan customers and funds borrowed**

The Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **3.20 Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

#### **3.21 Employee benefits**

##### **(i) Reserve for employee severance payments**

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

##### **(ii) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### **3.22 Fiduciary assets**

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated balance sheet, since such items are not treated as assets of the Group.

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## 3. Significant accounting policies (continued)

### 3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at and for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements:

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Group's 2009 financial statements, is not expected to have any impact on the consolidated financial statements.
- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 financial statements, with retrospective application. However, it is not expected to have any impact on the consolidated financial statements.
- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.

- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, becomes mandatory for the Group's 2010 financial statements. However, it is not expected to have any impact on the consolidated financial statements.

- IFRS 8 *Operating Segments* introduces the “management approach” to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently, the Group's principal activity is to provide banking services mainly in one geographical segment (Turkey). Therefore, it is not expected to have any impact on the consolidated financial statements.

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## 3. Significant accounting policies (continued)

### 3.23 New standards and interpretations not yet adopted (continued)

- Revised IAS 1 *Presentation of Financial Statements* (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 consolidated financial statements.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements. However, it is not expected to have any impact on the consolidated financial statements.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 financial statements, are not expected to have any significant impact on the consolidated financial statements.
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.
- The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Group's 2009 consolidated financial statements. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

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

#### **3.23 New standards and interpretations not yet adopted (continued)**

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* clarifies that:
  - net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation
  - the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged
  - on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss.

The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. IFRIC 16, which becomes mandatory for the Group's 2009 consolidated financial statements, applies prospectively to the Group's existing hedge relationships and net investments. The Group does not expect these amendments to have any significant impact on the consolidated financial statements.

### **4. Financial risk management**

#### **a) Introduction and overview**

The Group's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Group is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk. Group's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Bank. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

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### 4. Financial risk management (continued)

#### b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk arises where the possibility exists of a counter party defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit.

The Bank manages its corporate portfolio as per following principles;

There are risk limits, set by the Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, credit approval authorities and their approval limits.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains securities when appropriate.

#### *Measuring risk*

Throughout the loan extension process, the Bank management evaluates the firm's operating performance, financial structure, ability of debt repayment currently and continuance of debt payment ability in the future and the morality of the firm's shareholders. The Bank has generated an internal rating system for the determination of firms' ratings and credit assessments. The "Credit Rating" process is the analysis of objective criteria formed upon the evaluation of firm's financial performance, information gathered throughout intelligence process, relations of the firm with other financial institutions, the firm's production technology, the position of the firm in its sector, the firm's competitiveness and customer and supplier portfolio of the firm. The firms are rated between AA - E.

<b>Interval</b>	<b>Rating</b>	<b>Description</b>
9.50 - 10.0	AA	Very good
8.50 - 9.49	A	
7.50 - 8.49	BB	Good
6.50 - 7.49	B	
5.50 - 6.49	CC	Average
4.50 - 5.49	C	
3.50 - 4.49	DD	Below average
2.50 - 3.49	D	
1.50 - 2.49	EE	Unsatisfactory
0.00 - 1.49	E	

#### *Monitoring the risk*

Risk Follow-up Department performs the monitoring of the morality records of the firm and the black list of central bank, controls the distribution of concentration limits with respect to sector, geography and credit type and controls the collateral structure of the loans.



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### 4. Financial risk management (continued)

#### b) Credit risk (continued)

Exposure to credit risk

At 31 December	Notes	Due from banks		Loans and advances to customers	
		2008	2007	2008	2007
<b>Carrying amount</b>		<b>26,231</b>	<b>9,693</b>	<b>38,306</b>	<b>127,297</b>
Individually impaired					
- Non-performing financial assets		-	-	6,147	2,272
<b>Gross amount</b>		<b>-</b>	<b>-</b>	<b>6,147</b>	<b>2,272</b>
Allowance for impairment	15	-	-	(2,736)	(1,322)
<b>Carrying amount</b>		<b>-</b>	<b>-</b>	<b>3,411</b>	<b>950</b>
Past due but not impaired		-	-	-	-
<b>Carrying amount</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Neither past due nor impaired		26,231	9,693	35,236	127,551
<b>Gross amount</b>		<b>26,231</b>	<b>9,693</b>	<b>35,236</b>	<b>127,551</b>
Allowance for collective impairment	15	-	-	(341)	(1,204)
<b>Carrying amount</b>		<b>26,231</b>	<b>9,693</b>	<b>34,895</b>	<b>126,347</b>
<b>Carrying amount (amortised cost)</b>	12, 15	<b>26,231</b>	<b>9,693</b>	<b>38,306</b>	<b>127,297</b>

#### Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded D to EE in the Bank's internal credit risk grading system.

#### Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

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### 4. Financial risk management (continued)

#### b) Credit risk (continued)

*Exposure to credit risk (continued)*

*Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

*Write-off policy*

The Bank writes off a loan balance (and any related allowances for impairment losses) when Bank determines that the loans are uncollectible.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

<b>2008</b>	<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>
Grade D : Individually impaired	3,198	2,702
Grade EE : Individually impaired	1,418	709
Grade E : Individually impaired	1,531	-
<b>Total</b>	<b>6,147</b>	<b>3,411</b>

<b>2007</b>	<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>
Grade D : Individually impaired	225	180
Grade EE : Individually impaired	413	207
Grade E : Individually impaired	1,634	563
<b>Total</b>	<b>2,272</b>	<b>950</b>

*Collateral policy*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2008 or 2007.

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### 4. Financial risk management (continued)

#### b) Credit risk (continued)

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

	2008	2007
<b>Secured loans</b>	<b>74,696</b>	<b>174,358</b>
- Secured by cash collateral	7	7
- Secured by mortgages	6,865	10,004
- Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	67,824	164,347
<b>Unsecured loans</b>	<b>34,547</b>	<b>21,393</b>
<b>Total performing loans<sup>(*)</sup></b>	<b>109,243</b>	<b>195,751</b>

(\*) Total performing loans is comprised of collaterals obtained for cash loans and non-cash loans.

Segment concentration of cash loans is as follows:

	2008	2007
Retail	10,034	35,661
Production	8,515	39,236
Mining	5,090	3,044
Transportation	3,249	3,781
Construction	1,540	11,487
Finance	902	25,062
Tourism	301	2,394
Education	277	-
Agriculture	40	71
Electrical, gas and natural resources	-	-
Real estate property	-	140
Other	5,253	5,062
<b>Corporate loans</b>	<b>35,201</b>	<b>125,938</b>
Consumer loans	24	57
Finance lease receivables	11	1,556
Non performing loans	6,147	2,272
Provision for possible loan losses	(3,077)	(2,526)
<b>Total</b>	<b>38,306</b>	<b>127,297</b>

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### 4. Financial risk management (continued)

#### b) Credit risk (continued)

Segment concentration of non-cash loans is as follows:

	2008	2007
Mining	21,926	-
Finance	18,886	11,518
Production	14,351	13,530
Retail	4,541	10,108
Construction	2,548	10,821
Transportation	1,596	2,569
Real estate property	1,059	881
Other	9,380	18,865
<b>Total</b>	<b>74,287</b>	<b>68,292</b>

#### Concentration risk by location

At 31 December	Notes	Due from banks		Loans and advances to customers	
		2008	2007	2008	2007
Turkey		17,828	2,848	38,306	127,297
Turkish Republic of Northern Cyprus		8,403	6,845	-	-
	12, 15	<b>26,231</b>	<b>9,693</b>	<b>38,306</b>	<b>127,297</b>

#### Trading assets including derivative financial instruments

The Group held trading assets, including derivative financial assets of YTL 2,891 (2007: YTL 481). An analysis of the credit quality of the maximum credit exposure is as follows:

	Notes	2008	2007
Government bonds and treasury bills			
- Rated BB - (trading portfolio)	13	1,776	460
Derivative assets:			
- Bank and financial institution counterparties	14	1,115	21
<b>Fair value and carrying amount</b>		<b>2,891</b>	<b>481</b>

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### 4. Financial risk management (continued)

#### c) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments.

#### *Exposure to liquidity risk*

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency (“BRSA”). Currently, this calculation is performed on a bank only basis. In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. The Bank’s liquidity ratios in 2008 and 2007 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency	Total	Foreign currency	Total
2008 average	213.45	296.98	105.41	196.71
2007 average	169.84	438.19	113.50	244.17

The table on the next page analyses financial liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

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### 4. Financial risk management (continued)

#### c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

2008	Note	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<i>Non-derivative liabilities</i>									
Current accounts of loan customers	21	1,223	(1,227)	(591)	(636)	-	-	-	-
Funds borrowed	22	12,696	(13,077)	-	(4,316)	(462)	(4,910)	(3,389)	-
		<b>13,919</b>	<b>(14,304)</b>	<b>(591)</b>	<b>(4,952)</b>	<b>(462)</b>	<b>(4,910)</b>	<b>(3,389)</b>	<b>-</b>
<i>Derivative financial instruments</i>									
- Outflow	14	1,252	(19,121)	-	(19,121)	-	-	-	-
- Inflow	14	(1,115)	18,992	-	18,992	-	-	-	-
		<b>137</b>	<b>(129)</b>	<b>-</b>	<b>(129)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>14,056</b>	<b>(14,433)</b>	<b>(591)</b>	<b>(5,081)</b>	<b>(462)</b>	<b>(4,910)</b>	<b>(3,389)</b>	<b>-</b>

2007	Note	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
<i>Non-derivative liabilities</i>									
Current accounts of loan customers	21	41,620	(42,314)	(4,495)	(17,088)	(20,731)	-	-	-
Funds borrowed	22	57,606	(59,084)	-	(28,805)	(380)	(27,206)	(2,693)	-
		<b>99,226</b>	<b>(101,398)</b>	<b>(4,495)</b>	<b>(45,893)</b>	<b>(21,111)</b>	<b>(27,206)</b>	<b>(2,693)</b>	<b>-</b>
<i>Derivative financial instruments</i>									
- Outflow	14	89	(16,101)	-	(16,101)	-	-	-	-
- Inflow	14	(21)	15,838	-	15,838	-	-	-	-
		<b>68</b>	<b>(263)</b>	<b>-</b>	<b>(263)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
		<b>99,294</b>	<b>(101,661)</b>	<b>(4,495)</b>	<b>(46,156)</b>	<b>(21,111)</b>	<b>(27,206)</b>	<b>(2,693)</b>	<b>-</b>

#### d) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Group primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA. The Bank's value at market risks as at 31 December 2008 and 2007 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2008			2007		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	51	49	12	13	27	3
Equity price risk	1,192	1,832	498	-	-	-
Currency risk	31	42	-	519	1,008	42
<b>Total value-at-risk</b>	<b>1,274</b>	<b>1,923</b>	<b>510</b>	<b>532</b>	<b>1,035</b>	<b>45</b>

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### 4. Financial risk management (continued)

#### d) Market risk (continued)

##### Equity price risk

Equity price risk is the risk that the fair values of equities change as the result of the changes in the levels of equity indices and the value of individual stocks.

The effect on equity as a result of change in the fair value of equity instruments available-for-sale at 31 December 2008 and 2007 due to a reasonably possible 10% change in equity indices, with all other variables held constant is as follows:

At 31 December	10% increase in index		10% decrease in index	
	2008	2007	2008	2007
	Equity	Equity	Equity	Equity
Istanbul Stock Exchange – 100 (IMKB 100)	312	1,010	(312)	(1,010)

##### Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary required to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Fair values of financial assets and liabilities carried at amortised cost, including mainly due from banks, loans and advances to customers, reserve deposits at the Central Bank and funds borrowed are considered to approximate their respective carrying values due to the fact that the effective interest rates on those represent the current effective market rates and also their short-term nature.

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### 4. Financial risk management (continued)

#### d) Market risk (continued)

##### Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

The concentrations of assets, liabilities and off balance sheet items are as follows:

<b>2008</b>	<b>EUR</b>	<b>USD</b>	<b>Yen</b>	<b>Other</b>	<b>Total</b>
Cash and balances with the Central Bank	-	1,205	-	-	1,205
Due from banks	110	9,650	49	29	9,838
Loans and advances to customers	2,315	1,251	-	-	3,566
Other assets	11	5	-	-	16
Current accounts of loan customers	(30)	(441)	-	-	(471)
Funds borrowed	(6,429)	(6,232)	-	(1)	(12,662)
Other liabilities	(368)	(13)	-	(1)	(382)
<b>Net balance sheet position</b>	<b>(4,391)</b>	<b>5,425</b>	<b>49</b>	<b>27</b>	<b>1,110</b>
<b>Net off-balance sheet position</b>	<b>4,282</b>	<b>(4,675)</b>	-	-	<b>(393)</b>
- Derivative financial assets	4,282	7,742	-	500	12,524
- Derivative financial liabilities	-	(12,417)	-	(500)	(12,917)
<b>Net position</b>	<b>(109)</b>	<b>750</b>	<b>49</b>	<b>27</b>	<b>717</b>

<b>2007</b>	<b>EUR</b>	<b>USD</b>	<b>Yen</b>	<b>Other</b>	<b>Total</b>
Cash and balances with the Central Bank	-	3,712	-	-	3,712
Due from banks	141	9,467	30	24	9,662
Loans and advances to customers	5,105	18,975	-	-	24,080
Other assets	1,556	1	-	-	1,557
Current accounts of loan customers	(649)	(8,525)	-	-	(9,174)
Funds borrowed	(6,103)	(30,175)	-	(1)	(36,279)
Other liabilities	-	(217)	-	(1)	(218)
<b>Net balance sheet position</b>	<b>50</b>	<b>(6,762)</b>	<b>30</b>	<b>22</b>	<b>(6,660)</b>
<b>Net off-balance sheet position</b>	-	<b>6,638</b>	-	-	<b>6,638</b>
- Derivative financial assets	-	12,229	-	-	12,229
- Derivative financial liabilities	-	(5,591)	-	-	(5,591)
<b>Net position</b>	<b>50</b>	<b>(124)</b>	<b>30</b>	<b>22</b>	<b>(22)</b>



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### 4. Financial risk management (continued)

#### d) Market risk (continued)

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of YTL against the foreign currencies at 31 December 2008 and 2007 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	2008		2007	
	Equity <sup>(*)</sup>	Profit or loss	Equity <sup>(*)</sup>	Profit or loss
Euro	(11)	(11)	5	5
USD	75	75	(12)	(12)
Other currencies	8	8	5	5
<b>Total</b>	<b>72</b>	<b>72</b>	<b>(2)</b>	<b>(2)</b>

(\*) Equity effect also includes profit or loss effect of 10% devaluation of YTL against related currencies.

A 10 percent strengthening of the YTL against the foreign currencies at 31 December 2008 and 2007 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Group manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A substantial majority of the Group's assets and liabilities reprice within three months. Accordingly, there is a limited exposure to interest rate risk.

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## 4. Financial risk management (continued)

### d) Market risk (continued)

Interest rate risk (continued)

Exposure to interest rate risk

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Department of the Bank in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on portfolios is as follows:

2008	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest bearing	Total
<b>Assets</b>							
Cash and balances with the Central Bank	1,346	-	-	-	-	16	1,362
Due from banks	24,610	-	-	-	-	1,621	26,231
Trading assets	-	-	1,776	-	-	-	1,776
Loans and advances to customers	29,476	4,419	1,054	287	-	3,070*	38,306
Investment securities	-	-	-	-	-	3,115	3,115
<b>Total assets</b>	<b>55,432</b>	<b>4,419</b>	<b>2,830</b>	<b>287</b>	<b>-</b>	<b>7,822</b>	<b>70,790</b>
<b>Liabilities</b>							
Current accounts of loan customers	632	-	-	-	-	591	1,223
Funds borrowed	4,430	1,234	7,032	-	-	-	12,696
<b>Total liabilities</b>	<b>5,062</b>	<b>1,234</b>	<b>7,032</b>	<b>-</b>	<b>-</b>	<b>591</b>	<b>13,919</b>
<b>Balance sheet interest sensitivity gap</b>	<b>50,370</b>	<b>3,185</b>	<b>(4,202)</b>	<b>287</b>	<b>-</b>	<b>7,231</b>	<b>56,871</b>

(\*) Includes net of non performing loans amounting YTL 6,147 and allowance for loan losses amounting YTL 3,077.

2007	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest bearing	Total
<b>Assets</b>							
Cash and balances with the Central Bank	11,278	-	-	-	-	131	11,409
Due from banks	9,062	160	-	-	-	471	9,693
Trading assets	-	-	460	-	-	-	460
Loans and advances to customers	84,324	22,634	20,490	103	-	(254)*	127,297
Investment securities	-	-	-	-	-	10,102	10,102
<b>Total assets</b>	<b>104,664</b>	<b>22,794</b>	<b>20,950</b>	<b>103</b>	<b>-</b>	<b>10,450</b>	<b>158,961</b>
<b>Liabilities</b>							
Current accounts of loan customers	16,962	20,163	-	-	-	4,495	41,620
Funds borrowed	29,351	1,315	26,940	-	-	-	57,606
<b>Total liabilities</b>	<b>46,313</b>	<b>21,478</b>	<b>26,940</b>	<b>-</b>	<b>-</b>	<b>4,495</b>	<b>99,226</b>
<b>Balance sheet interest sensitivity gap</b>	<b>58,351</b>	<b>1,316</b>	<b>(5,990)</b>	<b>103</b>	<b>-</b>	<b>5,955</b>	<b>59,735</b>

(\*) Includes net of non performing loans amounting YTL 2,272 and allowance for loan losses amounting YTL 2,526.

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### 4. Financial risk management (continued)

#### d) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for the year based on the floating rate financial assets and financial liabilities held at 31 December 2008. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2007. The following tables also include the sensitivity of trading portfolio of the Group.

2008	Profit or loss		Equity <sup>(*)</sup>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets at fair value through profit or loss	(12)	12	(12)	12
Floating rate financial assets	-	-	-	-
Floating rate financial liabilities	(14)	14	(14)	14
<b>Total, net</b>	<b>(26)</b>	<b>26</b>	<b>(26)</b>	<b>26</b>

2007	Profit or loss		Equity <sup>(*)</sup>	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets at fair value through profit or loss	(2)	2	(2)	2
Floating rate financial assets	-	-	-	-
Floating rate financial liabilities	(13)	13	(13)	13
<b>Total, net</b>	<b>(15)</b>	<b>15</b>	<b>(15)</b>	<b>15</b>

<sup>(\*)</sup> Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

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### 4. Financial risk management (continued)

#### d) Market risk (continued)

Interest rate risk (continued)

Summary of average interest rates

As at 31 December 2008 and 2007, the summary of average interest rates for different assets and liabilities are as follows:

	2008			2007		
	Euro	USD	YTL	Euro	USD	YTL
<b>Assets</b>						
Cash and balances with the Central Bank	-	-	12.00	-	-	11.81
Due from banks	-	5.26	14.75	3.50	4.75	-
Trading assets	-	-	16.70	-	-	16.15
Loans and advances to customers	11.32	9.98	31.31	7.78	7.59	22.40
<b>Liabilities</b>						
Current account of loan customers	-	4.00	17.25	5.91	5.51	18.77
Funds borrowed	6.61	4.47	-	5.08	5.57	17.31

#### e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

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

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years, 2005, 2006 and 2007. The amount calculated as YTL 20,677 as at 31 December 2008 (2007: YTL 15,752) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

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## 4. Financial risk management (continued)

### f) Capital management

BRSA, the regulator body of the banking industry sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Bank is consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement as at 31 December 2008 and 2007 is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

There have been no material changes in the Bank's management of capital during the period.

The Bank's capital position at 31 December 2008 and 2007 is as follows:

	2008	2007
Tier 1 capital	63,258	53,912
Tier 2 capital	59,541	57,192
Deductions from capital	(186)	(406)
<b>Total regulatory capital</b>	<b>59,355</b>	<b>56,786</b>
Risk-weighted assets	93,682	169,526
Value at market risk	6,375	588
Operational risk	20,677	15,752
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	49.16	30.55
Total Tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	52.39	29.01

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## 5. Financial assets and liabilities

### Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Group expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Available -for-sale	Other amortised cost	Total carrying amount	Fair value
<b>2008</b>							
Cash and balances with Central Bank	11	-	1,362	-	-	1,362	1,362
Due from banks	12	-	26,231	-	-	26,231	26,231
Trading assets	13	1,776	-	-	-	1,776	1,776
Derivative financial instruments	14	1,115	-	-	-	1,115	1,115
Loans and advances to customers	15	-	38,306	-	-	38,306	38,306
Investment securities	16	-	-	3,115	-	3,115	3,115
		<b>2,891</b>	<b>65,899</b>	<b>3,115</b>	<b>-</b>	<b>71,905</b>	<b>71,905</b>
Derivative financial instruments	14	1,252	-	-	-	1,252	1,252
Current account of loan customers	21	-	-	-	1,223	1,223	1,223
Funds borrowed	22	-	-	-	12,696	12,696	12,696
		<b>1,252</b>	<b>-</b>	<b>-</b>	<b>13,919</b>	<b>15,171</b>	<b>15,171</b>
<b>2007</b>							
Cash and balances with Central Bank	11	-	11,409	-	-	11,409	11,409
Due from banks	12	-	9,693	-	-	9,693	9,693
Trading assets	13	460	-	-	-	460	460
Derivative financial instruments	14	21	-	-	-	21	21
Loans and advances to customers	15	-	127,297	-	-	127,297	127,297
Investment securities	16	-	-	10,102	-	10,102	10,102
		<b>481</b>	<b>148,399</b>	<b>10,102</b>	<b>-</b>	<b>158,982</b>	<b>158,982</b>
Derivative financial instruments	14	89	-	-	-	89	89
Current account of loan customers	21	-	-	-	41,620	41,620	41,620
Funds borrowed	22	-	-	-	57,606	57,606	57,606
		<b>89</b>	<b>-</b>	<b>-</b>	<b>99,226</b>	<b>99,315</b>	<b>99,315</b>

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### 6. Net fee and commission income

	2008	2007
<b>Fee and commission income</b>		
Fee and commission income on non-cash loans	754	853
Fee on banking services	529	565
Other fees and commissions	51	146
	<b>1,334</b>	<b>1,564</b>
<b>Fee and commission expense</b>		
Fee and commission expense on banks	151	51
Fee and commission expense on bonds	-	35
Other	10	55
	<b>161</b>	<b>141</b>
	<b>1,173</b>	<b>1,423</b>

### 7. Net trading income / (loss)

	2008	2007
Derivative financial transactions	214	(189)
Other	-	(50)
	<b>214</b>	<b>(239)</b>

### 8. Personnel expenses

	2008	2007
Wages and salaries	3,740	2,674
Social security premiums	436	301
Bonus provision	221	221
Provision for / (reversal of provision) employee termination benefits	109	(62)
Provision for vacation pay liability	104	39
Other fringe benefits	148	300
	<b>4,758</b>	<b>3,473</b>

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### 9. Other operating expenses

	2008	2007
Utilities expense	725	586
Rent expenses	651	387
Vehicle expenses	219	152
On line data expenses	217	209
Auditing and consulting expenses	186	108
Subscription and membership fees	145	130
Other	574	243
	<b>2,717</b>	<b>1,815</b>

Other includes YTL 30 of impairment loss on assets held for resale.

### 10. Income tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. GSD International is not subject to taxation

As at 31 December 2008, corporate income tax is 20% (2007: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. There is also a withholding tax levied at a certain rate on the dividends paid and is accrued only at the time of such payments. Some of the deduction rates included in the 15<sup>th</sup> and 30<sup>th</sup> articles of the Law no. 5520 on the Corporate Tax, has been redefined according to the cabinet decision numbered 2006/10731, which has been announced at Trade Registry Gazette of 23 July 2006-26237. In this context, withholding tax rate on dividend payments which are made to the companies except those are settled in Turkey or generate income in Turkey via a business or a regular agent has been increased to 15% from 10%.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

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 arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.



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### 10. Income tax (continued)

As at 31 December 2008 and 2007, prepaid income taxes are netted off with the current tax liability as stated below:

	2008	2007
Income tax liability	1,627	2,360
Prepaid income tax	(1,588)	(1,723)
<b>Income taxes payable</b>	<b>39</b>	<b>637</b>

### Income tax recognised in the income statement

The components of income tax expense for the years ended 31 December 2008 and 2007 are:

	2008	2007
<b>Current tax</b>		
Current income tax	1,627	2,360
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	144	(180)
	<b>1,771</b>	<b>2,180</b>

### Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Group for the years ended 31 December 2008 and 2007 is as follows:

	2008	%	2007	%
<b>Profit before income tax</b>	<b>11,038</b>		<b>9,039</b>	
<b>Taxes on income per statutory tax rate</b>	<b>2,208</b>	<b>20</b>	<b>1,808</b>	<b>20</b>
Tax effect of foreign subsidiary	(80)	-	(71)	(1)
Tax effect of exempt items	(654)	(7)	(75)	(1)
Tax effect of disallowable expenses	297	3	518	6
	<b>1,771</b>	<b>16</b>	<b>2,180</b>	<b>24</b>

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### 11. Cash and balances with Central Bank

	2008	2007
Cash on hand	16	131
Cash and balances with Central Bank of Turkish Republic	548	8,578
Reserve deposits at Central Bank of Turkish Republic	798	2,700
	<b>1,362</b>	<b>11,409</b>

According to the regulations of the Central Bank of Turkish Republic (the “Central Bank”), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group’s day to day operations.

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in YTL and USD or EUR at the rates of 6% and 9%, respectively as per the Communiqué no. 2005/1 “Reserve Deposits” of the Central Bank of Turkey (2007: 6% for YTL and 11% for USD or EUR).

As at 31 December 2008, the interest rate applied by the Central Bank of Turkey for YTL reserves is 12.00%. The foreign currency reserves do not earn any interests (2007: 11.81% for YTL, 1.95% for USD and 1.80% for EUR).

### 12. Due from banks

	2008	2007
Placements with other banks	26,231	9,693
- Demand	1,621	471
- Time	24,610	9,222
	<b>26,231</b>	<b>9,693</b>

### 13. Trading assets

	2008		2007	
	Face value	Carrying value	Face value	Carrying value
<b>Debt and other instruments</b>				
Government bonds in YTL	2,000	1,776	500	460
	<b>2,000</b>	<b>1,776</b>	<b>500</b>	<b>460</b>

As at 31 December 2008, government bonds with carrying values of YTL 1,776 (2007: YTL 460) are pledged to the Central Bank and the Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2008 and 2007, there is not any debt instrument given as collateral under repurchase agreements.

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### 14. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards and swaps.

	2008	2007
<b>Derivative financial assets</b>		
Forwards	1,115	21
Currency swaps	-	-
	<b>1,115</b>	<b>21</b>
<b>Derivative financial liabilities</b>		
Forwards	1,155	33
Currency swaps	97	56
	<b>1,252</b>	<b>89</b>

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	2008					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
<b>Currency swaps:</b>						
Purchases	4,282	-	-	-	-	4,282
Sales	4,372	-	-	-	-	4,372
<b>Currency forwards:</b>						
Purchases	14,710	-	-	-	-	14,710
Sales	14,749	-	-	-	-	14,749
<b>Total of purchases</b>	<b>18,992</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,992</b>
<b>Total of sales</b>	<b>19,121</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,121</b>
<b>Total of transactions</b>	<b>38,113</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,113</b>
	2007					Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	
<b>Currency swaps:</b>						
Purchases	2,329	-	-	-	-	2,329
Sales	2,400	-	-	-	-	2,400
<b>Currency forwards:</b>						
Purchases	-	-	15,838	-	-	15,838
Sales	-	-	16,101	-	-	16,101
<b>Total of purchases</b>	<b>2,329</b>	<b>-</b>	<b>15,838</b>	<b>-</b>	<b>-</b>	<b>18,167</b>
<b>Total of sales</b>	<b>2,400</b>	<b>-</b>	<b>16,101</b>	<b>-</b>	<b>-</b>	<b>18,501</b>
<b>Total of transactions</b>	<b>4,729</b>	<b>-</b>	<b>31,939</b>	<b>-</b>	<b>-</b>	<b>36,668</b>

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### 15. Loans and advances to customers

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	2008			2007		
Consumer loans						
- Other lending	24	-	24	57	-	57
Corporate customers:						
- Finance leases	11	-	11	1,556	-	1,556
- Other lending	41,348	(3,077)	38,271	128,210	(2,526)	125,684
	<b>41,383</b>	<b>(3,077)</b>	<b>38,306</b>	<b>129,823</b>	<b>(2,526)</b>	<b>127,297</b>

#### Allowance for impairment

	2008	2007
<b>Specific allowances for impairment</b>		
Balance at 1 January	1,322	2,415
Impairment loss for the year		
- Charge for the year	1,604	259
- Recoveries	(190)	(1,352)
<b>Balance at 31 December</b>	<b>2,736</b>	<b>1,322</b>
<b>Collective allowances for impairment</b>		
Balance at 1 January	1,204	522
Impairment loss for the year		
- Charge for the year	-	682
- Recoveries	(863)	-
<b>Balance at 31 December</b>	<b>341</b>	<b>1,204</b>
	<b>3,077</b>	<b>2,526</b>

#### Finance lease receivables

Loans and advances to customers include the following finance lease receivables for leases of certain property and equipment where the Group is lessor:

	2008	2007
Less than one year	11	1,624
Between one and five years	-	8
<b>Finance lease receivables, gross</b>	<b>11</b>	<b>1,632</b>
Less: Unearned future income on finance leases	-	(76)
<b>Finance lease receivables, net</b>	<b>11</b>	<b>1,556</b>

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### 16. Investment securities

#### Available-for-sale investment securities

	2008	2007
Equity securities	3,115	10,102
<b>Total investment securities</b>	<b>3,115</b>	<b>10,102</b>

Equity securities comprised GSD Holding's shares which are stated at fair value.

### 17. Property and equipment

	Motor vehicles	Furniture and fixtures	Leased assets	Leasehold improvements	Total
<b>Cost</b>					
Balance at 1 January 2007	264	203	408	478	1,353
Additions	-	193	-	176	369
Disposals	-	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>264</b>	<b>396</b>	<b>408</b>	<b>654</b>	<b>1,722</b>
Balance at January 2008	264	396	408	654	1,722
Additions	-	150	-	84	234
Disposals	(35)	(30)	-	(235)	(300)
<b>Balance at 31 December 2008</b>	<b>229</b>	<b>516</b>	<b>408</b>	<b>503</b>	<b>1,656</b>
<b>Depreciation</b>					
Balance at 1 January 2007	127	182	404	477	1,190
Depreciation for the year	51	29	1	17	98
Disposals	-	-	-	-	-
<b>Balance at 31 December 2007</b>	<b>178</b>	<b>211</b>	<b>405</b>	<b>494</b>	<b>1,288</b>
Balance at January 2008	178	211	405	494	1,288
Depreciation for the year	45	56	-	5	106
Disposals	(24)	(1)	-	(16)	(41)
<b>Balance at 31 December 2008</b>	<b>199</b>	<b>266</b>	<b>405</b>	<b>483</b>	<b>1,353</b>
<b>Carrying amounts</b>					
Balance at 1 January 2007	137	21	4	1	163
Balance at 31 December 2007	86	185	3	160	434
Balance at 31 December 2008	30	250	3	20	303

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### 18. Intangible assets

	<b>Software</b>
<b>Cost</b>	
Balance at 1 January 2007	815
Additions	35
Disposals	-
<b>Balance at 31 December 2007</b>	<b>850</b>
Balance at January 2008	850
Additions	30
Disposals	(3)
<b>Balance at 31 December 2008</b>	<b>877</b>
<b>Amortisation</b>	
Balance at 1 January 2007	811
Amortisation for the year	6
Disposals	-
<b>Balance at 31 December 2007</b>	<b>817</b>
Balance at January 2008	817
Amortisation for the year	7
Disposals	-
<b>Balance at 31 December 2008</b>	<b>824</b>
<b>Carrying amounts</b>	
Balance at 1 January 2007	4
Balance at 31 December 2007	33
Balance at 31 December 2008	53

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### 19. Deferred tax assets and liabilities

	2008			2007		
	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
Impairment losses on loans and advances to customers	68	-	(173)	241	-	137
Reserve for employee severance indemnity	20	-	4	16	-	(13)
Vacation pay liability	39	-	17	22	-	8
Bonus provision	44	-	-	44	-	44
Derivative financial instruments	250	(224)	12	14	-	14
Depreciation methodology differences on property and equipment and intangible assets	-	(14)	(4)	-	(10)	(10)
	<b>421</b>	<b>(238)</b>	<b>(144)</b>	<b>337</b>	<b>(10)</b>	<b>180</b>

### 20. Other assets

	2008	2007
Assets held for resale	3,015	-
Court case receivables	274	-
Prepaid expenses	125	60
VAT deductible	-	23
Others	25	46
<b>Total</b>	<b>3,439</b>	<b>129</b>

The Group provided an impairment loss amounting YTL 30 for assets held for resale.

### 21. Current accounts of loan customers

	2008	2007
Corporate customers		
- Demand	591	4,495
- Time	632	37,125
	<b>1,223</b>	<b>41,620</b>

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### 22. Funds borrowed

	2008		
	Effective interest rate		
	Amount	New Turkish Lira	Foreign currency
<b>Short-term</b>			
Fixed interest	9,577	-	USD 4.33% EUR 6.64%
<b>Medium/long-term</b>			
Fixed interest	3,119	-	USD 4.53%
<b>Total</b>	<b>12,696</b>		

	2007		
	Effective interest rate		
	Amount	New Turkish Lira	Foreign currency
<b>Short-term</b>			
Fixed interest	55,175	17.31%	USD 5.57% EUR 5.08%
<b>Medium/long-term</b>			
Fixed interest	2,431	-	USD 5.57%
<b>Total</b>	<b>57,606</b>		

Repayment plan of medium and long-term borrowings is as follows:

	2008	2007
2009	-	1,286
2010	2,185	1,145
2011	934	-
	<b>3,119</b>	<b>2,431</b>

Funds borrowed are unsecured.



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### 23. Provisions

	2008	2007
Bonus provision	221	221
Vacation pay liability	191	108
Employee termination benefits	100	82
<b>Total</b>	<b>512</b>	<b>411</b>

#### Vacation pay liability

In accordance with existing social legislation in Turkey, the Bank is required to make payments to employees whose employment is terminated for any reason for their vested unused vacation days. Such payments are calculated on the basis of the salary of the employee at the date of termination. Vacation pay liability is the total undiscounted liability of vested unused vacation days of the employees as at 31 December 2008 and 2007.

For the years ended 31 December, movements in the vacation pay liability is as follows:

	2008	2007
At 1 January	108	69
Increase during the year	104	39
Paid	(21)	-
<b>At 31 December</b>	<b>191</b>	<b>108</b>

#### Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay, maximum of YTL 2.17 at 31 December 2008 (2007: YTL 2.03) per year of employment at the rate of pay applicable at the date of retirement or termination. The principal assumption used in the calculation of the total liability is that the maximum liability for each year of service will increase in line with inflation semi-annually.

The liability is not funded, as there is no funding requirement.

The movement in provision for employee termination benefits is as follows:

	2008	2007
At 1 January	82	144
Increase during the year	109	-
Paid	(91)	(62)
<b>At 31 December</b>	<b>100</b>	<b>82</b>

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### 23. Provisions (continued)

#### Employee termination benefits (continued)

International Accounting Standard No: 19 (“IAS 19”) requires actuarial valuation methods to be developed to estimate the enterprise’s obligation under defined benefit plans. The reserve has been calculated by estimating the present value of future probable obligation of the Company arising from the retirement of the employees. Accordingly, the following statistical assumptions were used in the calculation of the following liability:

	2008	2007
Discount rate	6.26%	5.71%
Expected rate of salary/limit increase	5.40%	5.00%
Estimated rate of obtaining right for employee termination indemnity	86.65%	88.27%

### 24. Other liabilities

	2008	2007
Transitory accounts	502	417
Taxes and funds payable	301	426
VAT payable	3	13
Others	264	191
	<b>1,070</b>	<b>1,047</b>

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### 25. Capital and reserves

	2008	2007
Total number of shares, YTL 0.1 (in full YTL), par value	250.000.000	250.000.000

As at 31 December 2008, the Bank's historical subscribed and issued share capital is YTL 25,000.

As at 31 December 2008 and 2007, the composition of shareholders and their respective ownership percentages are summarised as follows:

	2008		2007	
	Amount	%	Amount	%
GSD Holding	25,000	100	25,000	100
Adjustment to share capital <sup>(*)</sup>	16,813		16,813	
	<b>41,813</b>		<b>41,813</b>	

(\*) Adjustment to share capital represents the restatement effect of share capital until 31 December 2005.

GSD Dış Ticaret A.Ş., Tekstil Factoring Hizmetleri A.Ş., GSD Sigorta Aracılık Hizmetleri A.Ş. and Tekstil Finansal Kiralama A.Ş. have shares amounting less than 1 YTL.

#### Available-for-sale reserve

This reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

#### Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

#### Dividends paid and proposed

The Group did not declare or pay dividends out of the profits for the year ended 31 December 2008 as at the date of preparation of these consolidated financial statements.

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### 26. Cash and cash equivalents

	Notes	2008	2007
Cash on hand	11	16	131
Cash and balances with Central Bank of Turkish Republic	11	548	8,578
Placement with other banks	12	26,231	9,693
		<b>26,795</b>	<b>18,402</b>
Interest accruals on cash and cash equivalents		(432)	(364)
		<b>26,363</b>	<b>18,038</b>

The reserve deposits at Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

### 27. Commitments and contingencies

#### Litigation

There is no legal proceeding outstanding against the Group as at 31 December 2008.

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2008	2007
Letters of guarantee	71,633	50,386
Letters of credit	2,374	17,743
Acceptance credits	-	71
Other guarantees	280	92
<b>Total</b>	<b>74,287</b>	<b>68,292</b>

### 28. Related parties

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 the financial and operating decisions. The Group is controlled by GSD Holding, which owns 100% of ordinary shares. For the purpose of these consolidated financial statements, shareholders of the Bank, GSD Holding, its subsidiaries (Tekstil Bankası A.Ş., GSD Dış Ticaret A.Ş., GSD Faktoring Hizmetleri A.Ş., Tekstil Finansal Kiralama A.Ş., Tekstil Menkul Değerler A.Ş., Tekstil Faktoring Hizmetleri A.Ş., Tekstil Bilişim Hizmetleri A.Ş., GSD Eğitim Vakfı, GSD Sigorta Aracılık Hizmetleri A.Ş. and Eurobank Offshore) are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

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### 28. Related party disclosures (continued)

	2008						
	Cash loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders	-	13,429	-	-	-	-	28,476
Others	8,680	12,245	16,694	4	49	-	
2008							
	Interest income	Interest expense	Fees and commission income	Other operating income	Other operating expenses		
Direct / indirect shareholders	105	4,413	114	232	625		
Others	633	1,534	68	-	427		
2007							
	Cash loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders		12,465	-	33,679	-	-	31,939
Others	6,865	3,101	154	-	17,646	-	-
2007							
	Interest income	Interest expense	Fees and commission income	Other operating income	Other operating expenses		
Direct / indirect shareholders	143	3,038	127	379	376		
Others	348	963	19	-	-		

For the year ended 31 December 2008, the executive and non-executive members of Board of Directors and management received remuneration and fees totalling approximately YTL 1,717 (2007: YTL 1,504) comprising salaries and other short-term benefits.

### 29. Subsequent event

According to the decree of the Council of Ministers numbered 2007/11963 and dated 4 April 2007, for the currency unit of the Republic of Turkey, the term “New” in the name of the national currency was removed beginning from 1 January 2009.