

**TÜRKİYE İŞ BANKASI A.Ş.**

**INTERIM REPORT FOR  
THE PERIOD BETWEEN  
JANUARY 1st – JUNE 30th, 2008**

## GENERAL INFORMATION

### Brief Information on Isbank

Established on August 26<sup>th</sup>, 1924 by great leader Mustafa Kemal Atatürk, Türkiye İş Bankası A.Ş. has played a key role in the development of Turkey's national economy especially with its contributions to the domestic industry and commerce from its establishment till today for 84 years.

Türkiye İş Bankası A.Ş., Turkey's largest private bank, provides its customers with the opportunity to choose among both the Bank's and its participations' various financial products the ones that perfectly match with their needs as well as the opportunity to reach the banking services in every manner with its 973 domestic and international branches, 3,194 ATMs that make up the largest ATM network in Turkey, internet banking, telephone banking and call center.

### Capital and Shareholding Structure

As of June 30<sup>th</sup>, 2008, the Bank's paid in capital within the TRY 7 billion registered capital ceiling is TRY 2,756,585 thousand and 41.54% of the Bank's shares are owned by T. İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı (Isbank Members' Supplementary Pension Fund), 28.09 % are owned by the Republican People's Party (Atatürk's shares) and 30.37% are on free float.

There has not been any change in the capital structure and no capital increase has been made during the period.

### Board of Directors

<u>Name</u>	<u>Position</u>
<b>Caner Çimenbiçer</b>	<i>Chairman of the Board of Directors and the Audit Committee</i>
<b>H. Fevzi Onat</b>	<i>Deputy Chairman</i>
<b>H. Ersin Özince</b>	<i>Chief Executive Officer and Director</i>
<b>Salih Kurtuluş</b>	<i>Director</i>
<b>Prof. Dr. Savaş Taşkent</b>	<i>Member of the Board and the Audit Committee</i>
<b>İsmet Atalay</b>	<i>Director</i>
<b>Tülin Aykın</b>	<i>Director</i>
<b>Tuncay Ercenk</b>	<i>Director</i>
<b>Adnan Keskin</b>	<i>Director</i>
<b>Ali Sözen</b>	<i>Director</i>
<b>Fusun Tümsavaş</b>	<i>Director</i>
<b>Prof. Dr. Turkay Berksoy</b>	<i>Auditor</i>
<b>H.Ahmet Ergenekon</b>	<i>Auditor</i>

## Audit Committee

<u>Name</u>	<u>Position</u>
<b>Caner Çimenbiçer</b>	<i>Chairman</i>
<b>Prof. Dr. Savaş Taşkent</b>	<i>Member</i>

## Chief Executive Officer and Deputy Chief Executives

<u>Name</u>	<u>Position</u>
<b>H. Ersin Özince</b>	<i>Chief Executive Officer</i>
<b>A. Aykut Demiray</b>	<i>Foreign Affairs, Treasury, Economic Research, Foreign Branches, Foreign Representative Offices, Coordinating and Monitoring Free Zone Branches</i>
<b>M. Sırrı Erkan</b>	<i>Board of Change Management, Non-branch Banking, Coordination of Tasks and Projects Related to Strategic Targets</i>
<b>Kadir Akgöz</b>	<i>Electronic Data Processing and Software Development</i>
<b>Özcan Türkakın</b>	<i>Public Relations, Equity Participations, Capital Markets, Private Banking Customer and Sales Departments</i>
<b>F. Kayhan Söyler</b>	<i>Commercial Banking Sales, Marketing and Product Departments</i>
<b>Zafer Memişoğlu</b>	<i>Support Services and Purchasing, Premises and Real Estate Departments</i>
<b>Hülya Altay</b>	<i>Retail Loans, Card Payment Systems, Retail Banking Marketing, Sales and Product Departments</i>
<b>Mahmut Magemizoğlu</b>	<i>Taxation Counselor, Financial Operations and Accounting Departments</i>
<b>Hakan Barut</b>	<i>Legal Counselor, Legal Affairs, Credit Information and Financial Analysis, and Problem Loans Departments</i>
<b>Adnan Bali</b>	<i>Corporate Banking Marketing, Sales and Product Departments</i>
<b>Suat İnce</b>	<i>Corporate and Commercial Loans, SME Loans</i>
<b>Serdar Gençer*</b>	<i>Budgeting and Planning, Organization, Staff Training and Human Resources Departments</i>
<b>Hakan Aran*</b>	<i>Central Operations and Branch Operations Departments</i>

\* Serdar Gençer and Hakan Aran were appointed Deputy Chief Executives on July 17<sup>th</sup>, 2008.

## GENERAL SURVEY ON TURKISH ECONOMY AND BANKING SECTOR

The evaluations related to economic developments in the first half of the year are summarized below.

In June, industrial production increased 0.8%, which is below the expectations. Thus, the increase in industrial production, which was 6.8% in the first quarter of the year, receded to 3.2% during April-June period. The industrial production figures for the second quarter revealed that economic growth has started to slow down compared to the first quarter. In the coming period, the slowdown in growth is anticipated to continue due to the effects of the rise in interest rates on domestic demand and the deceleration of growth in Euro area economies on foreign demand.

The tendency of the expansion in current account deficit continues. In the first half of the year 2008, current account deficit increased 41.9% compared to the same period of the previous year and was realized at USD 27.3 billion. As per the 12-months cumulative figures, current account deficit reached USD 45.8 billion. The expansion in the foreign trade deficit was the major cause of the increase in current account deficit. It is observed that during this period direct investments and portfolio investments remained well below last year's level. This situation resulted in the current account deficit to be financed heavily by debt creating inflows, while on the other hand high energy prices have also continued to put pressure on the current account deficit. The high level of the current account deficit differentiates Turkey different from many other emerging countries and makes it risky.

The budget, which was negative in the first half of 2007, posted a surplus of TRY 1.9 billion during the January-June period of the year 2008. In this period, primary surplus reached 59.6% of the year-end target. The decrease in budgetary expenditures due to the downfall of interest expenses was effective in this progress. On the other hand, the fall in domestic VAT collection confirms the slowdown in domestic demand. The budget realizations in the first half of 2008 indicate that there will not be a significant deviation in attaining the year-end targets. Nevertheless, maintaining fiscal discipline is of significant importance considering the fluctuations in the international markets.

In June, CPI decreased 0.36%, whereas PPI increased 0.32% compared to the prior month. Thereby, annual increases in CPI and PPI were 10.61% and 17.03%, respectively. Contribution of food and energy prices to annual CPI increases was realized at 6.8 percentage points. The increases in food, energy and other commodity prices continued to exert significant upward pressure on headline inflation. By considering the trend in inflation, the Central Bank of Turkey indicated that achieving the 4% inflation target would take up a long time and revised its inflation target as 7.5% for end of 2009 and as 6.5% for end of 2010 and set its inflation target for 2011 as 5.5%. According to the third Inflation Report of the year 2008, the Central Bank of Turkey revised the end-2008 inflation forecast upwards by 1.3 percentage points to 10.6%.

According to current data, the banking sector loan portfolio and consumer loans increased 19.9% and 17.4% respectively, in the first half of the year, compared to the end of 2007. Due to the fluctuations in global markets and the tightening in lending, beginning from the second quarter of the year, there has been a notable slow down in loan growth, which gained impetus since the end of 2007. Nevertheless, the loan growth of the banking sector in the first half of 2008 was above the 11% increase in the same period of the previous year. Deposits, the main funding source of banks, also increased 13.8% as of June 27, 2008, compared to the end of 2007. Other than the stable increase in TRY deposits, increase in exchange rates had a positive impact on the aforementioned expansion.

It seems that the uncertainties in global markets together with the domestic economic policy are likely to have stronger impact on economic growth and credit markets in the second half of 2008.

## FINANCIAL HIGHLIGHTS AND KEY RATIOS RELATED TO THE PERIOD

<b>ASSETS (TRY Thousand) (1)</b>	<b>2008/6</b>	<b>2007/12</b>
Cash and Equivalents	473,278	502,828
Banks and Money Market Placements (2)	14,364,715	13,542,273
Securities (Net)	24,321,326	24,326,340
Loans (3)	42,152,135	33,979,841
Other	6,948,868	7,829,635
<b>Total Assets</b>	<b>88,260,322</b>	<b>80,180,917</b>
<b>LIABILITIES (TRY Thousand) (1)</b>	<b>2008/6</b>	<b>2007/12</b>
Deposits	53,795,574	48,533,145
Money Market Funds and Other Funds Borrowed	18,481,624	15,765,440
Shareholders' Equity	9,401,224	10,603,862
Other	6,581,900	5,278,470
<b>Total Liabilities</b>	<b>88,260,322</b>	<b>80,180,917</b>
<b>INCOME STATEMENT (TRY Thousand)(4)</b>	<b>2008/6</b>	<b>2007/6</b>
Interest Income	4,891,562	4,509,544
Interest Expense	3,072,240	3,148,629
Net Interest Income	1,819,322	1,360,915
Trading Income/Loss	328,920	203,094
Net Fees and Commissions Income	602,525	513,438
Other Operating Income	709,135	416,411
<b>Total Operating Income / Expense</b>	<b>3,459,902</b>	<b>2,493,858</b>
Other Operating Expenses	1,341,943	1,000,906
Provision for Loan Losses or Other Receivables	672,432	554,754
<b>PROFIT / LOSS BEFORE TAXES and MONETARY POSITION</b>	<b>1,445,527</b>	<b>938,198</b>
Provision for Taxes	292,376	172,443
<b>NET PERIOD PROFIT / LOSS</b>	<b>1,153,151</b>	<b>765,755</b>
GROSS INCOME (5)	6,586,193	5,694,472
GROSS PROFIT (6)	2,117,959	1,492,952
<b>KEY RATIOS</b>	<b>2008/6</b>	<b>2007/12</b>
Interest Earning Assets / Total Assets	91.6%	89.6%
Loans / Total Assets	47.8%	42.4%
Retail Loans / Total Loans	32.1%	34.7%
NPL Ratio	3.7%	4.2%
Demand Deposits / Total Deposits	17.0%	16.5%
Capital Adequacy Standard Ratio	16.9%	20.5%
Return on Average Assets (7)	2.7%	2.2%
Return on Average Equity (7)	23.1%	17.0%
	<b>2008/6</b>	<b>2007/6</b>
Cost / Income	38.8%	40.1%

(1) Interest accruals are included in all interest related items.

(2) Includes balances with the Central Bank of Turkey and Reserve Deposits.

(3) Excludes Non-Performing Loans.

(4) Fees and Commissions Received from Cash Loans are reclassified under interest Income; Fees and Commissions Paid to Cash Loans are reclassified under Interest Expense.

(5) Gross Income=Interest Income +Foreign Exchange Gains/ Losses +Trading Gains/Losses on Securities +Gross Fees and Commissions Income +Dividend Income +Other Operating Income

(6) Gross Profit=Net Period Profit/Loss +Provision for Taxes +Provision for Impairment Losses

(7) Averages are calculated over year-end balances

## **EVALUATIONS ON THE RELATED PERIOD**

The loan portfolio, which had a solid 14% increase in the first quarter, has maintained its growth mainly with the increase in commercial and retail TRY loans in the second quarter of the year. The Bank's loan growth was 24.1% as a result of the effective performance both in TRY and FX placements. The Bank also increased its deposits 10.8% during the same period. The growth in Isbank's assets was 10.1% in the related period. Despite the high profit generated in the period, the shareholders' equity decreased 11.3% due to the decrease in Marketable Securities Revaluation Reserve as a result of the decrease in market value of our publicly owned companies parallel to the difficulties in domestic money markets which are seriously affected by fluctuations in global markets.

The Bank has maintained its profit oriented growth strategy in the second quarter of the year and kept preserving the balance between cost and yield despite the tendency of increase in interest rates and the severe competition in deposit market. In this frame, Isbank's interest income increased 8.5%, whereas interest expenses decreased 2.4% and net interest income significantly increased 33.7%, compared to the same period of the previous year. The impetus in growth in the first quarter has been preserved in terms of increase in net fees and commission income, which was 17.4% for the period between January-June, compared to same period of the previous year.

The Bank has attained TRY 1.45 billion net operating income in the first half of the 2008, where operational efficiency has been maintained and Isbank increased its net profit 50.6% to TRY 1.15 billion, compared to the same period of the previous year.

In the second quarter of the year, within the frame of social responsibility, Isbank has had the honor to introduce Turkey a new "innovation". In order to support non-governmental organizations' efforts to find solutions for environmental problems, the Bank established and presented to its customers "Çevreye Yatırım Fonu" (Environment Investment Fund), the first environmentally-conscious fund in Turkey, which will also generate funding for the TEMA foundation's environmental projects.

Due to another event during the period, the Bank had another honor on behalf of Turkish Banking. Isbank ranked 371st, going up 4 steps in the list of the Forbes Magazine's annual "Global 2000" survey and preserved its leading position among Turkish companies.

On the other hand, in the list of The Banker magazine, another prestigious business publication in the world, which is published every year in July, Isbank was among the world's biggest 100 financial institutions and made its position stronger in terms of global scale. Isbank has gone up 16 steps from 102th to 86th compared to last year's ranking.

## **CHANGES IN THE PARTICIPATIONS PORTFOLIO**

The sale of Isbank's 97.53% shares in Asmaş Ağır Sanayi Makinaları A.Ş., a subsidiary of Isbank, was finalized during the period and furthermore, the transfer of Isbank's 99.96% shares in Anadolu Turizm İnşaat ve Ticaret A.Ş., a subsidiary of Isbank, to Nemrut Liman İşletmeleri A.Ş with a nominal value of TRY 50 thousand was finalized for an amount of TRY 13.1million in cash.