



**İS INVESTMENT**  
**QUARTERLY REPORT**  
01 JANUARY-31 MARCH 2008

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# Overview of the Economy

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Turkish economy has entered 2008 in a difficult conjuncture where the global growth has decelerated and the confidence for financial system has declined. In 2008, which the energy prices have increased at record level and the possibilities of foreign funding have become heavier, we're passing through a rocky road as a country with low savings and financing its growth by foreign sources.

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The distress in the world markets which made a hard start to 2008 is continuing increasingly. Concern about the tremendous damage which mortgage credits problems being experienced shall bring to the banking sector, and which shall cause a long term recession in USA economy have affected the markets negatively.

Interest cuts of American Central Bank (FED) and the financial aid package announced by USA Treasury weren't sufficient to inspire the markets with confidence, so the global investors have sold the risky investment tools such as shares, commercial papers providing high income, and developing country holdings, and started to prefer to return to USA government bonds which they've found safe.

However, excessively high indebtedness of the households in USA and deficit in savings have decreased the affect of interest cuts of USA over the credit market. Despite the falling of the short term interests, declining will for taking risks caused the stagnation to resume in credit markets.

As a result of these developments, despite the interest cuts of FED and the announced financial aid package, we think, USA economy is being faced with long term stagnation and US Dollar shall keep depreciating against the world currencies during this process.

We're worried for long term stagnation in USA economy may result in pulling down the global growth and an increase in the size of the damage in financial sector. Although the developing countries, which Turkey is involved in, have stronger growth dynamics compared to developed countries, we believe that they also will take their share in this process.

Turkish economy has entered 2008 in a difficult conjuncture where the global growth has decelerated and the confidence for financial system has declined. In 2008, which the energy prices have increased at record level and the possibilities of foreign funding have become heavier, we're passing through a rocky road as a country with low savings and financing its growth by foreign sources.

Although the acquisitions in the last years have increased the resistance of Turkey to external shocks significantly, and the public debt dynamics and bank balance sheets have strengthened incomparably with the previous years, it's impossible not to be affected from the external shocks as a developing country.

Besides the possible negative developments to be experienced in the political arena, we do believe that even though fluctuations may happen through the year, Turkish Lira will continue to be strong in 2008, too.

# Board of Directors and Executives

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## Board of Directors

Özcan Türkakın,	Chairman
Buket Himmetođlu,	Dep. Chairman
İbrahim Akar,	Member
Fatma Güliz Aykan,	Member
Adnan Ođuz Dincer,	Member
Güzide Meltem Kökden,	Member
Turan Gökçen Bali,	Member-Independent

\* Board of Directors have been assigned in the Ordinary General Meeting of Shareholders held on 28/04/2008 till the date of next Ordinary General Meeting of Shareholders.

\*\* Aynur Kafkaslı had taken place in the Board of Directors between the period of 01/01/2008-28/04/2008.

\*\*\* Members of the Board do not play an execution role at IS Investment.

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## Auditors

Serpil Kılıboz, İzlem Erdem

\* The auditors have been assigned in the Ordinary General Meeting of Shareholders held on 28/04/2008 till the date of next Ordinary General Meeting of Shareholders.

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## Executives

İlhami Koç,	General Manager
Murat Kural,	Assistant General Manager
Ufuk Ümit Onbaşı,	Assistant General Manager
Ertuğ Yıldırımcan,	Assistant General Manager
Mert Erdođmuş,	Assistant General Manager
Funda Çađlan Mursalođlu,	Assistant General Manager

# Summary Balance Sheet and Income Statement\*

<b>Summary Balance Sheet (YTL 000)</b>	<b>31 March 2008</b>	<b>31 March 2007</b>
<b>Assets</b>		
Current Assets	1,467,930	1,212,510
Long-Term Assets	14,530	19,775
<b>Total Assets</b>	<b>1,482,460</b>	<b>1,232,285</b>
<b>Liabilities</b>		
Short-Term Liabilities	1,111,242	833,388
Long-Term Liabilities	2,312	1,014
Minority Interest	139,258	162,710
Shareholders' Equity	229,648	235,173
<b>Total Liabilities</b>	<b>1,482,460</b>	<b>1,232,285</b>

<b>Summary Income Statement (YTL 000)</b>	<b>1 January-31 March 2008</b>	<b>1 January-31 March 2007</b>
Sales Revenue (Net)	7,399,186	4,855,872
Cost of Sales	(7,414,158)	(4,848,251)
Operating Income from Derivative Transactions and Interest Revenues	6,085	4,477
Service Income (Net)	14,824	8,926
Other Operating Income	3,481	3,135
Gross Profit	(11,978)	11,813
Operating Expenses (-)	(21,397)	(12,345)
Minority Interest	(10,821)	9,917
Net Profit	(1,497)	4,787

\* The financial statements and footnotes of IS Investment are disclosed to public at [www.isyatirim.com.tr](http://www.isyatirim.com.tr)

<b>Financial Highlights</b>	<b>31 March 2008</b>	<b>31 March 2007</b>
Current Assets/Short-Term Liabilities	1.32	1.45
Total Liabilities/Shareholders' Equity	4.85	3.55
Change in Total Assets	0.20	1.27
Earnings Per Share	(0.0125)	0.0495

## Shareholding Structure (%)

IS Bank*	63.78
Free Float	29.73
IS Leasing	2.43
IS Factoring	2.43
Sisecam	1.45
Camis Investment Holding	0.17

\* Shares held by the Company's main shareholder IS Bank was 65.65% as of 31/03/2008.

# Domestic Capital Markets

Despite the important and sensitive developments which has formed the agenda of the domestic and international markets, IS Investment has increased the trading volume by 12.9% in the Stock Market in the first quarter of the year with an amount of YTL 12.2 billion compared to the same period of the previous year, and continued to be the leader by increasing its market share from 6.18% to 6.31%.

## Stock Market

Istanbul Stock Exchange has shown a negative performance with the affect of the developments in the international markets in the first quarter of the year. Specially, mortgage problems in the American markets, liquidity crisis, serious loss the banks have noted have put the environment of the stock market in a very negative condition. While serious value loss has been observed in the stock markets of the developing countries in which Turkey is involved, our market has shown a weaker performance because of the structural problems of the economy. Decrease in the risk will sourced especially from the foreign investors has been felt in almost every evaluation, and stock market has lost 25% of value in the first quarter of the year. The closing case of the ruling party in the second half of March has added the political risk alongside the economical problems. As a result, Stock Market couldn't show a parallel performance in pulling itself upright, compared to the other markets.

Looking ahead to the coming periods, although the domestic market continues to show a fragile image, it has a serious return potential for the reason of being a market which has the most value loss. A very difficult conjuncture has been entered in terms of the investors. On one hand the political risk, on the other hand the international markets passing through a very volatile period, and on the other side inflation triggered by the increases of food and goods prices: all these factors are seen as the elements increasing the risk comprehension for the Stock Market.

Taking the picture in front of us, the scenario seen is as Stock Market shall follow the development in the international markets carefully and also shall wait for the decrease of the political risk. If a development which shall be comprehended positively by the markets occurs in the closing case of the ruling party, Stock Market may gain on the 8/10 percent gap caused by this event, with the international markets

Despite the important and sensitive developments which has formed the agenda of the domestic and international markets, IS Investment has increased the trading volume by 12.9% in the Stock Market in the first quarter of the year with an amount of YTL 12.2 billion compared to the same period of the previous year, and continued to be the leader by increasing its market share from 6.18% to 6.31%.

## Bonds and Bills Market

The first quarter of 2008 has been a period which compound levels of 16% have been tested on the interest fronts. The interest cuts and liquidity injections coming by FED have been comprehended as the positive precautions in terms of easing the market in the crisis environment caused by the credit and liquidity risks abroad. Within the domestic area, there hasn't been important raise in the interests as a result of the Central Bank going to interest cut and Turkish Lira protecting its strong position against American Dollar. Although the inflation numbers didn't show keen raises in the first months, the acceleration recorded at the end of the first quarter has come out with the affects of the energy, food and clothing prices. Consequently, it's unavoidable for the interest level of the first months to rule upwards in the coming months. As a result, it has been seen that the affects of the crisis which has been experienced in the international markets and hasn't affected the developing countries at the beginning because of the lacking of the structural derivative products, have reflected us in a delayed action.

As an affect of the change in the risk comprehension of the foreign investors and preferring to show a more deliberate approach relevant to Turkey, it has been observed that they have decreased the bond positions. Likewise, depreciation is determined in Turkish Lira against American Dollar, and exchange ascended to 1.32 levels.

Despite the pulling up straight in the foreign markets, in the light of the reflections of the crisis being seen in a delayed action on the domestic markets we expect that, revision of the year end inflation target

upwards by Central Bank and the announcement of interest increase regardless of the meeting of the Monetary Policy Council, if necessary, may end with a trend of ascend more than the current and highest seen compound interest of 19.50%. Considering loading redemptions of Treasury in July and August, the loans and the tender results up to and from these months present a great importance in terms of markets, considering the Bond Market. There is a different picture in terms of exchange rate. Having a very high exchange supply and liquidity in the market, result in Turkish Lira to protect its strength against American Dollar. The positive climate resulted from the American Dollar gaining back the prestige loss against the other currencies, even if very small amount, and visualizing the improvement process of the international markets have affected the exchange market positively. Unless there is a significant corruption in the international markets in the following period, we expect the American Dollar rate shall be limited in ascending.

In the first quarter of the year, IS Investment has increased its trading volume in the Bonds and Bills Market, where it has been in the first three for the last five years, by 63%, compared to the same period of the previous year by realizing a transaction at amount of YTL 8 billion and recaptured its first rank by raising its market share from 14.64% to 23.91%.

### **Derivative Market**

As a result of the decrease of the values of derivative instruments written on the mortgage more than expected which affected all the markets and developed abroad, and as a chain reaction, becoming a liquidity crisis, index contracts traded in Turkish Derivatives Exchange (TurkDEX) experienced serious value loss in the first quarter of the year. Compared to the beginning of the year, approximately 30% loss has been recorded in the Index-30 contract which is the major subject to trading, at the end of the first quarter. Due to the positive affect of the FED interest cuts and liquidity injections on the international markets, there have been positive movements in the futures market periodically.

In the first quarter of the year, futures contracts had premium trading over the spot market, in general. As the date of maturity is close, the premium condition turning out to discount has attracted attention. In the first quarter of the year, index contracts continued to be more attractive than the currency futures contracts and carry the market in trading volume, as in the previous year.

Domestically, while Central Bank has gone to interest cuts in the first quarter of the year, fluctuations have been experienced in the markets at the end of April again as a result of the diversion in the expectations of the inflation and the announcements on "interest increase shall not be evaded if necessary". As a result of the interest increase signals which affects especially the foreign currency markets and the contracts on TL/Dollar, price decreases have been seen in the American Dollar contracts. After a movement from 1.16 levels to 1.32 in the spot market, the market is balanced at 1.24-1.26 band. Activities in the Derivatives Market have come out as the projection of the trend in the spot market. As in the index contracts, the contracts which were subject to trading at most were the short term contracts. TL/Euro contracts didn't attract attention as much as in the dollar contracts and it formed a very weak picture in the trading volume.

When there wasn't any trading on the contracts written on interest, cotton and wheat; in a very small quantity but still there have been gold contracts being subject for trading in parallel to the developments in the international markets.

Contracts based on single stock options which its trading is expected to start in the Derivative Market in the coming periods, shall be an important issue on the agenda. These called contracts which shall draw the attention of the foreign investors as well as the domestic investors, as far as we think, shall have a contribution for the development of the markets and increase in involvement to the Derivative Market, and enabling the investors to make transactions in more effective markets.

As the index contracts maintain to be affected by the international stock markets because of the global affects, we have the opinion that the pull up process shall reflect positively on the index contracts. In TL/Dollar contracts, it is expected that Turkish Lira shall continue its strong position against US Dollar because of the excess in foreign currency liquidity and the attraction of the Turkish Lira interests.

IS Investment, taking a place as one of the founder members of TurkDEX and maintaining its leadership position since its establishment, is again in the top one in the market and performed a trading volume of YTL 18.7 billions and with the market share of 15.94% in the first quarter of the year. IS Investment has increased its trading volume by 289% with respect to the same period of 2007.

# Domestic Sales and Marketing

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In the first quarter of 2008, TradeMaster International (TMI) marketing and presenting activities have been accelerated to expand the use of TMI, e-trading platform which provides the investors to make transactions in the international markets through their own computers.

Despite the first quarter of 2008 has passed under the negative affect of the financial crisis which have been experienced in USA and caused serious fluctuations and loss in the whole world markets, the domestic sales and marketing activities have continued successfully.

In the direction of our growth strategy, after the branches Kalamış, Yeniköy and Akaretler in Istanbul, our fourth branch has gone into operation in Yeşilköy and our total number of branches have been raised to six with Izmir and Ankara branches. As the opening of Yesilköy Branch, our target is developing our client base and increasing our market share.

For gaining new clients, client visits have been continued throughout the country in the first quarter of 2008 and very important returns have been gained on this subject.

Marketing Management aims to continue its successful studies realized in the first quarter of the year increasingly through the rest of the year, and shall support the newly opened branches with new customer gains. Besides, visits to the regions where there isn't a branch but thought to have contained a serious potential shall continue. In the direction of this strategy, marketing studies and customer visits in various regions of our country is continuing and the necessary marketing program to expand the marketing activities in the rest of the year has been prepared.

In the first quarter of 2008, TradeMaster International (TMI) marketing and presenting activities have been accelerated to expand the use of TMI, e-trading platform which provides the investors to make transactions in the international markets through

their own computers. As a result of these activities, there has been an increase in the number of clients using TMI and the number of users has been approximately doubled in the first three months.

For measuring and for the progress the service quality of our company, a "Customer Satisfaction Survey" has been realized in the first quarter of 2008. The results of the interviews made with 640 of our current investors selected as samples within the content of the survey have been presented to the Board of Directors. It is being planned to review this study which shall be an important base to develop the services of our company, every year.

# International Capital Markets

IS Investment, taking the first rank among the brokerage houses, realized an amount of YTL 1.6 billion trading volume with a market share of 9.90% in the ISE Eurobond Market in the first quarter of 2008.

## Stock

Value loss in the USA markets has reached to 11% in two months with the crisis broken out in the mortgage market and the contraction in the credits market. While these difficulties affected the stock markets and options, they also enabled the investors to experience the stock options instead of the spot stock markets which were found risky. With a serious recovery in March, the market gaining value by 7.8% has triggered the return of the investors who were in caution in the first two months, and increases have been lived in the volumes and profits of the new stock options. While increase in intraday trading volume in stocks are seen from March, short term trading of stock options seen as an alternative have returned the investors to the market. In this term, the investors, finding the stocks expensive, have started to the transactions by option and as a result, there has been an increase in the number of investors. While making 16,000 contract transactions in the first quarter of the year, there has been a significant increase in our trading volume.

## Fixed Income Securities

The affects of the liquidity crisis which has started in USA in August 2007 and rocked the primary economies in the world have continued to hold the markets under control in the first months of 2008. In the first quarter of 2008 where FED has tried to release the possible recession scenarios in USA economy by using both the interest weapon and the repurchase bids to counteract the congestion in the financial markets, the uncertainty in the domestic markets related to the political mobility has caused the investors in Turkish Eurobond markets to be more conservative in risk comprehension. Following the interest cuts realized one after the other by FED, while a significant decrease has been seen in the "buy&sell back" repurchase transactions realized in Turkish Eurobonds, parallel to the risk-return expectations, the investors directed to government guaranteed agency Eurobonds and medium term high coupon rated Turkish Eurobonds in the secondary markets.

An increase has been observed also in the transactions of the investors who want to make profit from the supply and demand imbalance in the markets in MBS which holds the residences with unpaid mortgages which are the first investment instruments exposed to sale in liquidity tightness in its body, and which its transactions has started at the end of 2007. We have continued to take an

active role in the privileged stocks which are issued consecutively by the corporations in the financial sector to provide fund, both in primary and secondary markets, in the first quarter of 2008.

Looking at the second quarter of 2008, we shall continue to offer the most compatible alternatives to our investors who prefer risky or secure investment instruments parallel to the fluctuation in the markets.

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## Derivatives

A serious ascension has been experienced in the derivative transactions in the international markets by TradeMaster International (TMI), the electronic trading platform developed in 2007 and which enables the realization of stock and derivative instruments transaction through making momentary analysis in most of the leader stock markets in the world. We have seen a geometrical increase in the international derivative trading volume from January 2008 to March 2008 with providing human resource to the investors in addition to the recommendation reports of the International Capital Markets Management related to the markets. It has also been observed a rapid increase in the stock option transactions, compared to the previous periods, by intensifying the option suggestions intended for the investors to use the fluctuation seen in the stock markets more beneficially. As a result of the increase in the marketing activities directed to TMI and the expectation of continuity of the sensitivity of the domestic market to the global developments, we're expecting the concentration in future contracts to continue. Considering the experiences in energy and agriculture products, we're expecting the futures contracts relevant to these to keep their popularity.

Parallel to the developments related to capital markets legislation, we're expecting a serious growth in London Metal Exchange (LME) sourced hedge transactions also. For Istanbul having the depot feature in steel contracts which have started first trading in LME, an intensive demand is being expected from Turkey, too. While strengthening the relations established previously for supplying the hedge needs both in steel and other industrial metals, we've also increased the number of the companies we may make transactions.

# Corporate Finance

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The first quarter of 2008 has been very intense in terms of M&A transactions. Seller party consultancy has been given with Citigroup to Turkish Privatization Administration in the privatization project of Tekel Cigarettes. This sale will absolutely be one of the biggest transactions of the year with the approximate sales volume of YTL 1.7 billion US Dollars.

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## Mergers & Acquisitions

The first quarter of 2008 has been very intense in terms of M&A transactions. Seller party consultancy has been given with Citigroup to Turkish Privatization Administration in the privatization project of Tekel Cigarettes. This sale will absolutely be one of the biggest transactions of the year with the approximate sales volume of YTL 1.7 billion US Dollars.

Right along with this transaction, buyer party consultancy is given to two private sector M&A transactions within the top three. One of these transactions is negotiation in the sale of majority of shares of Mopisan Motor Piston, a company registered in Izmir, to German Mahle Group, the second in its sector in Europe. The other completed transaction is the assign of shares of IS Bank in Asmaş Makina A.Ş. to Şişe Cam Fabrikaları A.Ş. Buyer party consultancy is given in this transaction, too.

As another business line, consultancy to the buyer parties in privatization projects has continued and consultancy has been given to a domestic group in the tender of Bandırma Port.

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## Corporate Bond Issues

It has been performed the public offering of bonds with floating interest having a nominal value of YTL 50 millions and issued by Creditwest Factoring. This bond has the feature of being the first bond in public offerings having floating interest. There has been a demand of 52,950,100 lots totally in public offering.

The demand of 29,947,100 lots from the individual investors and 23,003,000 lots from the corporate investors have been realized and 90% of the domestic individual investor demands have been responded.

Unless there is an upward movement trend in interests, it is thought that there will be new corporate bond issues in 2008 in the market which has been mobilized since the beginning of 2006.

# New Products and Services Network

Capital Markets Board (CMB) has permitted the establishment of "IS Investment Arbitrage Free Mutual Fund" which is one of the first samples of the funds in Turkey, known as "Hedge Fund" in the international markets, with YTL 30 million initial amount on 31/03/2008.

As it has been announced to our investors before, IS Investment is taking the steps necessary to progress its new product/service diversification and geographical growth in 2008, too.

## Yeşilköy Branch

After the opening of our Akaretler Branch on 15/10/2007, our Yeşilköy Branch has run into operation as the fourth branch in Istanbul and the sixth branch together with Ankara and Izmir Branches as on 31/03/2008. As the opening of Yeşilköy Branch, our target is developing the client base and increasing our market share.

## Hedge Fund - IS Investment - the first Investment Banking Institution which has applied for Hedge Fund Establishment to Capital Markets Board

Capital Markets Board (CMB) has permitted the establishment of "IS Investment Arbitrage Free Mutual Fund" which is one of the first samples of the funds in Turkey, known as "Hedge Fund" in the international markets, with YTL 30 million initial amount on 31/03/2008.

IS Investment has constituted an effective risk management system for the Arbitrage Free Mutual Fund Management, and developed a detailed software system for tracing and analyzing risks. Tracing and analyzing the fund shall be executed by the Risk Management Department.

The main investment strategy of fund is benefiting totally or partially from the arbitrages in the market. Even though the target main strategy prefers the less risk containing strategies predominantly, other strategies which the conjuncture may drive are also used from period to period.

It is planned to keep the Directional Positioning at minimum levels and to bring the relative value strategies in the foreground.

# Information Policy

IS Investment Information Policy has been ratified by the Board of Directors. In our Company, the Board of Directors is authorized and responsible for monitoring, observing and improving the public disclosure and information policy. The Investor Relations unit and the Assistant General Manager who is reported by Investor Relations unit have been assigned with the coordination of disclosure function. The said people fulfill these responsibilities in close cooperation with the Board of Directors.

Information policy of IS Investment has been approved and disclosed to public by the Board of Directors.

## General Framework of Information Policy

IS Investment makes the announcements and disclosures excluding trade secrets in relation to all necessary financial information as required primarily by the Capital Markets Law and Turkish Commercial Code and other regulations in relation thereto while observing the generally accepted accounting principles and corporate governance principles; the Company follows a detailed public disclosure and information policy within the scope above.

The principal purpose of the Information Policy is to secure that the necessary information and announcements apart from those that are under the trade secret scope are disclosed to shareholders, investors, employees, customers, creditors and other related parties on a timely manner and on the principles of being accurate, complete, intelligible, conveniently accessible at low cost and equally available to all.

IS Investment who has an active approach towards adopting and implementing corporate governance principles, puts great effort in carrying out the requirements of the related regulations and the best international practices with regards to public disclosure and information. Being set in accordance with the above-mentioned context, IS Investment information policy has been ratified and put into effect by the Board of Directors.

## Authority and Responsibility in Performance of Information Policy

IS Investment Information Policy has been ratified by the Board of Directors. In our Company, the Board of Directors is authorized and responsible for monitoring, observing and improving the public disclosure and information policy.

The Investor Relations unit and the Assistant General Manager who is reported by Investor Relations unit have been assigned with the coordination of disclosure function. The said people fulfill these responsibilities in close cooperation with the Board of Directors.

## The Methods and Tools Used for Public Disclosure

- Financial statements and footnotes and descriptions on related financial statements prepared in accordance with the legislation published by the Capital Markets Board (CMB) along with the independent auditors' report issued in line with procedures are submitted to the Istanbul Stock Exchange of (ISE ) the legal periods stipulated, and also posted on the IS Investment's website.
- Material event statements required to be made under the CMB legislation are submitted to the ISE and to the CMB within the prescribed periods of time.
- Necessary announcements and promulgations, such as the cases of amendments of articles of association, General Meetings, capital increases, are made in the Turkish Trade Registry Gazette and daily newspapers.

- Covering the necessary information and explanations in line with Capital Markets Legislation an annual report is prepared both in Turkish and English every year before the General Meeting and presented for examination by the Shareholders and posted on our website; the related report in hardcopy can be obtained from the Investor Relations unit at any time.
- Press releases are given to the printed and visual media when deemed necessary. Press releases in printed and visual media may be given by the Chairman, General Manager or his deputy and other authorized persons to be named thereby.
- By means of tele-conferences organized now and then, shareholders and other relevant parties are provided with information transfer.
- Information is provided to Shareholders and other related parties through investor meetings and investor visits (road shows) in and out of Turkey. Such meetings and visits carried out by the Investor Relations unit are attended by the General Manager, relevant executives and Investor Relations unit managers, depending on their work schedules. In necessary cases, the said contact teams can be expanded.
- Relevant information and primarily the financial statements are provided regularly and periodically by the Investor Relations unit via e-mail to Shareholders, creditors and rating institutions and institutions issuing research report on IS Investment.
- Investor Relations section in our corporate website with Turkish and English Language options are used actively for information and public disclosure website covers data and information envisaged by corporate governance principles and is monitored and updated by the investor relations unit. The questions directed to the Investor Relations unit by the stakeholders via e-mail, letter and telephone are replied with coordination of Investor Relations unit as soon as possible.

**IS Investment Corporate Website  
([www.isyatirim.com.tr](http://www.isyatirim.com.tr),  
[www.isinvestment.com](http://www.isinvestment.com))**

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IS Investment's website is actively used for information and public disclosure. The website includes the information and data required by the corporate governance principles and regulatory authorities both in Turkish and in English. Information available on the website are notices on the General Meetings and the information related the General Meetings. Utmost care is given to keep the website up to date.

# Risk Management Policy

Risk Management Department ensures that these risks are properly identified, monitored, measured and managed proactively throughout the firm.

Effective risk management is fundamental to success in financial services industry as a basic expectation of shareholders, regulators and customers needs expands. In a challenging and changing risk business environment, however the bar on what forms effective risk management concept is constantly being raised. Risk measurement & management activities is an integrated part of IS Investment's core business activities which operates separately in the whole organisation. In the course of management its business operations, IS Investment can be exposed to a variety of risks. These risks basically operate as market, credit, liquidity, process, and other risks that are material and require comprehensive proactive controls and management. The responsibility and accountability for these risks remain primarily with in the businesses. Risk Management Department ensures that these risks are properly identified, monitored, measured and managed proactively throughout the firm.

## Risk Management Vision & Strategy

- Risks should be fully understood and managed transparently throughout the organisation,
- Risk management function is independent from risk taking in the group,
- Corporate risk policy boundaries are defined in a detail manner with risk procedures and catalogues,
- Business units allocate risk taking capacity to optimize their risk-adjusted performance within risk management brief constraints,
- Corporate risk measures that drive risk monitoring and control activities are targeted for business performance evaluations,
- Risk management group should achieve of forecasting financial positions risks over time,
- Risk is measured and managed by people, not only mathematical sophisticated models,
- Business decisions are taken by considering the risk and return of the possibilities.

## Risk Management Principles

- The whole corporate risk management processes has a unique link with the strategic business department activities.
- Clearly defined risk management policies and procedures supported by the most appropriate and advanced analytic tools available.
- Communication and coordination between the business, executive, and risk functions while maintaining strict segregation of responsibilities, controls, and oversight.
- Clearly articulated risk tolerance levels as defined by the Board Members that are regularly reviewed to ensure that IS Investment's risk-taking is consistent with its business strategy, capital structure, current and anticipated market conditions.
- Risk management department measures trading book portfolio VaR calculations periodically.
- Risk management's main value added contribution is to protect the corporate capital permanently by maximising corporate profits.
- Risk monitoring, risk analysis, limit setting & control, risk reporting, scenario & stress analysis are the main concepts in the integrated risk management system.

Risk Management Policy of IS Investment is disclosed to our shareholders and all related parties via our website.

# Independence Declaration

## To the Board of Directors of IS Investment;

I hereby declare to the Board of Directors, shareholders and stakeholders that I fulfill the below mentioned requirements due to be elected to the Board of Directors as an Independent Member at the Annual General Meeting which was held on 28<sup>th</sup> of April, 2008 and take into consideration with Corporate Governance Principles of CMB;

- I do not have any direct or indirect relationship of interest in terms of employment, capital or trade and commerce between the Company, its subsidiaries, affiliates or any other group company and myself, my spouse and my blood or affinity relatives by up to the third degree within the last two years,
- I was not previously elected to the Board of Directors as a representative of a certain group of shareholders,
- I was not employed in a company, primarily for the audit and consultant firm, which undertakes full or partial activity or organization of the Company under a contract and did not have a managing position therein within the last two years,
- I was not previously employed by the external auditor of the Company or did not have been included in the external audit process within the last two years,
- I was not previously employed by a firm providing significant amounts of services and products to the Company and did not have a managing position therein within the last two years.
- For my spouse of any her relatives by blood and affinity up to the third degree, did not have a managing position or be a shareholder holding more than 5% of the total capital or controlling shareholder by all means, or did not hold a managerial position or not to be effective in the control of the Company,
- I do not receive any compensation other than the board membership compensation.

Yours Sincerely,



**Prof. Dr. Turan Gökçen Bali**

# Corporate Governance Principles Compliance Report

In accordance with the principles of corporate governance, IS Investment manages the rights and responsibilities of all involved parties, shareholders, employees, customers, funders, potential investors and media institutions with the universal principles of accountability, equality, transparency and responsibility are encompassed within the perspective of effective management and control.

## 1. Corporate Governance Compliance Report

As a developing country, increasing the quality and quantity of international capital attracted to Turkey is so essential. We experienced a financial fluctuation called mortgage crises in the world which was not seen as a serious and a long-term problem to affect the markets deeply, especially for the developing countries. However, the called mortgage crises showed its affect in a short time that it was a so far worse crisis than it was assumed and caused the world economies, especially US economy, to face with the recession risk. These developments which affected the developing countries even late, made the companies and all other related parties to put an emphasis on the concept of "Corporate Governance" once again.

IS Investment is aware that a solid strategy for good governance may be achieved through effective risk management and internal control mechanisms, setting ethical rules, carrying out full public disclosure under the scope of the existing information policy and transparent execution of Board activities. The Company exemplifies the corporate approach represented in Turkey by the "IS" emblem in the sector.

In accordance with the principles of corporate governance, IS Investment manages the rights and responsibilities of all involved parties, shareholders, employees, customers, funders, potential investors and media institutions with the universal principles of accountability, equality, transparency and responsibility are encompassed within the perspective of effective management and control.

Performing its activities in accordance with the ethical values determined in parallel with the Turkish Commercial Code, Capital Markets Law and related legislation, IS Investment is in compliance with the Corporate Governance Principles and deems them as important as financial performance for providing long-term added value for its investors.

## PART I - SHAREHOLDERS

### 2. Investor Relations Department

IS Investment demonstrated the emphasis it places on its relationship with investors by establishing a special Investor Relations Department prior to its IPO in order to implement the necessary work for fulfilling public disclosure requirements and for maintaining healthy shareholders and stakeholders relations.

The Investor Relations Department is responsible for public disclosure and information activities. The main activities of the Department are to:

- Disclose all information concerning shareholders and stakeholders without divulging any trade secrets, under the scope of the Capital Markets Law and the related legislation, in accordance with the Corporate Governance Principles,
- Submit material event statements to the ISE periodically and within methods stipulated in the specified regulations under the scope of the Capital Markets Legislation and to publish these statements on the website to the attention of all investors,
- Maintain solid relationships with existing and potential investors,
- Hold General Meeting,
- Inform shareholders and stakeholders in a timely manner, accurately, easily, in full and at the lowest possible cost, by ensuring that information and data required by Corporate Governance Principles are updated in both Turkish and English on Investor Relations pages at the official web site of the company.

The Investor Relations Department has provided in-depth answers to all information requests submitted by phone or e-mail under the scope of the Capital Markets Legislation and IS Investment Information Policy; teleconferences have been held with investors and participated in meetings with various investment funds.

In addition, IS Investment's Turkish and English websites are regularly updated with relevant developments and are thus used as an informational tool for ensuring that shareholders' exercise their right to complete information.

Investor Relations contact information, publicly disclosed on IS Investment's website is provided below;

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Assistant General Manager

Level of Education

M.A.

Capital Markets Activity License Type:

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**Ozan Altan**

Level of Education

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**3. The Use of Shareholders' Rights to Obtain and Evaluate Information**

During the year, the Investor Relations Department was asked about IS Investment's financial highlights, markets performance, General Meeting, dividend policy and investment policies for the future. Questions directed by investors were answered as soon as possible, under the scope of the IS Investment Information Policy announced on the corporate website concurrent to the IPO. It was ensured that the disclosed information did not constitute any trade secrets.

The electronic environment has been effectively utilized concerning developments that may impact on the exercise of shareholders' rights. Material event statements submitted to the ISE are also published the same day on IS Investment's website, in both Turkish and English. In addition, investor presentations and other changes in Company structure are also immediately updated on the website. Significant issues in these announcements are forwarded to leading press institutions as press releases.

Besides that, information about IS Investment's stock performance is also published on the Company website to the attention of investors.

The right to request appointment of a special auditor is not included as a personal right in the Articles of Association which stipulates that this right applies to shareholders representing at least 5% (five percent) of the Company capital as set forth in the Capital Markets Law.

# Corporate Governance Principles Compliance Report

## 4. Information about on Annual General Meeting of Shareholders

IS Investment held its Annual General Meeting (AGM) on April 28, 2008. Invitation for this first AGM after our IPO was announced by material event statement via ISE, two country-wide and reputable newspaper and our website three weeks before the date of the AGM in accordance with the Turkish Commercial Law, capital markets legislation and the corporate governance principles;

The list of attendees revealed that out of the 119,387,000 shares representing the Company capital of YTL 119,387,000, 89,681,841 shares, (78,381,173 shares in person) were represented at the meeting and thus the meeting quorum stipulated in both the related law and in the Articles of Association was fulfilled.

The agenda and proxy samples for the AGM held by IS Investment as a listed company were published on the website.

The Articles of Association do not include a provision that significant decisions regarding the divisions, purchase, sale or lease of tangible/intangible assets in significant amounts and similar activities be taken by the AGM to enable decisions to be taken with no delay in a rapidly changing conditions of capital markets that is under the effects of an increasing competition.

The agenda and minutes of the AGM, held on April 28, 2008, were published on the IS Investment's website to the attention of both shareholders and stakeholders.

## 5. Voting Rights and Minority Rights

There are no voting rights privileges, however, Class-A shareholders have privileges to designate candidates for the Board of Directors. Five members of the Board are nominated from among Class-A shareholders, while two of them are nominated from among Class-B shareholders.

There are no cross ownership associated with any company and minority shareholders are not represented in the Board.

## 6. Deadline for Dividend Policy and Timing

Distribution of the first obligatory dividend of the distributable profit at the price and amount determined by the Capital Markets Board has been adopted as a principle of Article 16 in the Articles of Association; there is no stipulation concerning advance dividend distribution to shareholders.

The Board of Directors aims to increase the Company's diversity of activity and services, as well as to provide a high profit return for its shareholders. In accordance with the related legislation, the Board of Directors takes the following into consideration:

- a) Maintaining a balance between the expectations of the shareholders and the growth policies of IS Investment,
- b) The general profitability of the Company. Based on these conditions, the Board of Directors has adopted a dividend policy whereby the dividend payment would not be less than 30% of the total distributable profit and would be distributed as cash and/or stock dividend.

If it is decided in the AGM to pay a dividend, efforts will be made to make payments as soon as possible and within the period specified in the related legislation.

There are no redeemed shares or privileged shares in terms of dividend distribution.

IS Investment's Dividend Policy was presented to shareholders' information in the first AGM to be held as a listed company. IS Investment's Dividend Policy has been publicly disclosed on the corporate website.

## 7. Transfer of Shares

The Articles of Association stipulate that there is no restriction on the transfer of shares in accordance with the conditions set forth in Capital Markets Legislation.

## PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

### 8. Company Information Policy

IS Investment's Information Policy has been determined by the Board of Directors and was announced on the corporate website. At IS Investment, the Board of Directors bears the responsibility for the fulfillment of public disclosure and the monitoring, maintenance and development of this disclosure. The Investor Relations Department and the Assistant General Manager responsible for this Department have been assigned the coordination of this disclosure function; they fulfill this task in close collaboration with the Board of Directors.

### 9. Material Event Statements

Material event statements, excluding information constituting trade secrets, are all significant activities for the Company and may impact on the value of Company shares and investment decisions and they must be submitted to the ISE and when necessary to the CMB, utilizing the correct methods and within the time stipulated in the current legislation. IS Investment fulfills this significant responsibility for public disclosure with the utmost fastidiousness. During the period, 74 material event statements were submitted to the ISE for both IS Investment and the "IS Investment Dow Jones Turkey Equally Weighted 15 A Type Exchange Traded Fund", established by IS Investment. No additional statement requests were made by the CMB or the ISE for the related statements.

IS Investment shares are not listed on foreign stock markets.

## 10. The Company's Website and its Contents

IS Investment websites, available in both Turkish and English, can be found at [www.isyatirim.com.tr](http://www.isyatirim.com.tr) and [www.isinvestment.com](http://www.isinvestment.com). Information on the following topics is provided for shareholders and stakeholders under the heading, Investor Relations, as stipulated in the relevant section of the CMB Corporate Governance Principles;

- Corporate Information,
- Trade Registry Information,
- Ownership Structure & Subsidiaries
- Articles of Association,
- The Board of Directors and Executives,
- Organization Structure,
- Rating Reports
- Corporate Governance Principles Compliance Report
- Independence Declaration
- Policies on Anti-Money Laundering and on Combating Finance of Terror,
- Dividend Policy,
- Ethical Principles,
- Risk Management,
- Information Policy,
- Investor Relations Contact Details,
- Public Offering Circular,
- Financial Statements and Independent Auditor Reports,
- Investor Presentations,
- Annual Reports / Quarterly Reports
- Invitation to Ordinary General Meeting of Shareholders,
- Agenda of the Ordinary General Meeting of Shareholders Minutes,
- Power of Attorney,
- Minutes of Ordinary General Meeting of Shareholders,
- Stock Performance,
- Privileges Assigned to Shares,
- Capital Increases,
- Material Event Statements,
- Contact Information

# Corporate Governance Principles Compliance Report

## 11. Disclosure of the Company's Ultimate Controlling Individual Shareholder(s)

IS Investment has no ultimate controlling individual shareholder(s). The ownership structure of IS Investment is published on the website to the attention of shareholders and stakeholders.

## 12. Disclosure by Insiders

All manipulation of previously undisclosed public information that may effect on the value of capital market instruments, for deriving personal benefit or benefit for third parties or for making up for losses, in a way as to disrupt the equality of opportunity in capital markets are deemed insider trading.

The procedures for the act of insider trading are set forth in IS Investment Personnel Regulations. Accordingly, IS Investment employees may not disclose any information obtained about individuals, institutions and customers due to their titles and duties, to any party other than authorities clearly expressed by law. In addition, IS Investment employees and their relatives may not engage in the purchase or selling of shares.

Individuals who may have access to insider information include Board members listed in Part IV, the General Manager, Assistant General Managers and any other individual who may possess information that may qualify as trade secrets based on their position.

## PART III - STAKEHOLDERS

### 13. Informing Stakeholders

IS Investment employees, investors, analysts and media institutions are kept informed within the shortest possible time and accurately about material events.

Material event statements submitted to ISE concerning important developments about IS Investment are published on the corporate website the same day they are submitted, in both Turkish and English, to the attention of stakeholders. In addition, press releases are forwarded to media institutions after material event statements that may stir public attention.

### 14. Stakeholders' Participation in the Company Management

Stakeholders may ask the Board of Directors to convene upon application to the Chairman; the Chairman may open the issue for discussion at the next Board meeting if the Chairman concludes that it is not necessary to convene immediately, as stipulated in the Articles of Association of the Company.

IS Investment employees who hold a very special place among stakeholders have been provided the opportunity to deliver their opinions and suggestions concerning Company management through both the Human Resources Manager and their own managers, in addition to the above-mentioned right.

## 15. Company Policy on Human Resources

IS Investment established its policy on human resources and disclosed to public on the corporate website.

Commitment to ethical values, continuous development and customer-oriented approach are the values embraced in IS Investment's Human Resources Policy. The principle to provide equal opportunities to candidates equally is adopted as recruitment policies and career planning is determined. An increase in authority, responsibility and salary comes with the promotion. It is essential to have the necessary knowledge and experience required in the job description in order to be promoted to a higher position. The most important criteria in promotions is the performance of the employees.

IS Investment's main training policy is to provide equal opportunity and to contribute to the professional and personal development of its employees.

Job descriptions, performance and remuneration criteria of employees are determined by the Company and shared with the employees. IS Investment's performance management system is an integrated system in which both goals and competencies are assessed. Performance review is based on objective analysis and synthesis, designed to determine the extent to which employees meet job requirements as well as their success on the job.

Measures are taken to prevent any discrimination based on religion, language, race and gender; to show respect for human rights and to protect employees against any physical, psychological and emotional maltreatment in the Company. No complaints concerning these subjects have been received.

A representative has not been appointed to manage relations with the employees in accordance with the stipulations in article 14.

## 16. Information on Relations with Customers and Suppliers

IS Investment utilizes a customer-oriented investment banking approach and provides capital market services to its clients in line with its ethical values. Concurrent with these aims, the Company strives to identify client needs by analyzing changing market conditions and increasing demands by investors along with the development of products and services able to fulfill these needs.

Investment advisors charged to manage relationships with the customers with the goal of increasing the value of customers' assets. This is achieved by utilizing the most suitable financial tools based on the risk-return expectations of the client. In addition, a Customer Satisfaction Survey is conducted during certain periods and feedback is collected according to the results.

IS Investment has no suppliers due to its field of activity.

## 17. Social Responsibility

IS Investment is an important player in Turkish capital markets with the level of employment provided by its founder and main shareholder IS Bank and its subsidiaries. This has grown out of an awareness of its social responsibilities - one of its core management principles.

In addition to IS Investment's contributions to the Turkish economy, it also provides support to the community in a variety of social fields with its approach to employees and the support given to NGOs, educational institutions, scientific projects, athletics, the arts and cultural events.

The activities of IS Investment have no contradiction to the environmental legislations and the Company has not faced any legal enforcement in this regard.

# Corporate Governance Principles Compliance Report

## PART IV - THE BOARD OF DIRECTORS

### 18. Structure and Formation of the Board of Directors and Independent Members

#### The Board of Directors\*

Özcan Türkakın,  
Chairman  
Buket Himmetoğlu,  
Dep. Chairman  
İbrahim Akar,  
Member  
Fatma Güliz Aykan,  
Member  
Adnan Oğuz Dincer,  
Member  
Güzide Meltem Kökden,  
Member  
Turan Gökçen Bali,  
Member-Independent

\*Members of the Board do not play an executive role at IS Investment.

#### Executives

İlhami Koç,  
General Manager  
Murat Kural,  
Assistant General Manager  
(Dep. General Manager)  
Ufuk Ümit Onbaşı,  
Assistant General Manager  
Ertuğ Yıldırımcan,  
Assistant General Manager  
Mert Erdoğan,  
Assistant General Manager  
Funda Çağlan Mursalıoğlu,  
Assistant General Manager

It is stipulated in the Articles of Association that the General Manager cannot concurrently serve as Chairman of the Board of Directors.

The qualifications of independent board members are expressly set forth in the CMB Corporate Governance Principles. In line with its status in capital markets, IS Investment is of the opinion that an independent member possessing the above-mentioned qualifications and the capacity to make significant contributions to the Company should hold a seat on the Board of Directors. With this approach, Mr. Turan Gökçen Bali has been assigned as the Independent Board Member by the Ordinary

General Meeting of Shareholders held on 28/04/2008 till the date of the next Ordinary General Meeting of Shareholders, The "Independence Declaration" has been disclosed to public by IS Investment website.

The conditions by which Board Members may undertake duties outside IS Investment is prescribed by the general rules. However, it has been set forth in the Articles of Association that Board Members will not obtain permission from the AGM for trading with IS Investment nor be exempt from prohibition of competition.

### 19. The Qualifications of Board Members

All Board members are university graduates and managers experienced in their fields. In this respect, qualifications for IS Investment Board of Directors comply with the specifications listed under the relevant articles of the CMB Corporate Governance Principles.

The Articles of Association also embody the condition that more than half of the Board Members must hold a university degree.

### 20. Mission, Vision and Strategic Goals of the Company

The Board of Directors has defined IS Investment's mission and vision and disclosed them on the corporate website.

*Mission;* to play a leading role in the development of Turkish Capital Markets with the Company's ownership structure strengthened through the public offering, expert human resources, its investor-centered and market-oriented service approach and leadership position in the sector.

*Vision;* to become a distinguished and leading company with a corporate culture represented by the reliable "IS" brand, wide distribution network and stable growth in domestic and international capital markets.

Strategic goals related to IS Investment activities are prepared and presented to the Board of Directors in a report authored by managers. In this report, in addition to macroeconomic evaluations, information and expectations related to domestic and international markets are shared. Strategic goals determined in accordance with this information and the Board of Directors approves expectations after reviewing the performance of the previous period.

The Mission, Vision and Strategic Goals will be reformulated with a more unified approach during 2008.

### **21. Risk Management and Internal Control Mechanisms**

Effective risk management is fundamental to success in the financial services sector since requirements of shareholders, regulators and customers are continuously increasing. On the other hand, in a challenging and changing risk management environment, the level of effective risk management activities is constantly being raised. Risk measurement and management activities are integrated in IS Investment's core business activities; as a result, the Risk Management department, which operates separately within the whole organization, was restructured in 2006 as a department.

In the course of managing its business operations, IS Investment might be exposed to a variety of risk. Proactive control and management activities are basically achieved related to market, credit, liquidity and operational risk categories.

An effective internal audit system, covering internal control and audit activities has been established. The organizational plan applied at IS Investment and all the relevant rules and procedures is undertaken in transactions at IS Investment including non-central organizations, regularly, efficiently and effectively in accordance with the current internal and legal regulations. In addition, this system has been established to maintain the integrity and reliability of accounting and recording, to provide timely and correct access to information in the data system and to detect and prevent mistakes, forgeries and unlawful practices.

In addition, an audit system has been created covering all activities and units at IS Investment, primarily within the internal control system, which enables evaluation of these fields and includes the systematic auditing process where findings and evidence are obtained as a result of reporting and

reviewing. The audits are performed by inspectors to conform with the regulations and policies and are independent of IS Investment's daily activities, in accordance with the needs of management.

The Compliance Department in particular, and all units in general, show the utmost care in protecting the Company's reputation and with regard to liabilities arising from legislation, compliance to corporate principles, customer satisfaction, reputation and credibility.

### **22. Authorities and Responsibilities of Board Members and Executives**

The Board of Directors bears the responsibility to represent IS Investment as set forth in the Articles of Association. The Board of Directors may transfer its management and representation-related duties and authorities, in part or in full, to delegated Board Members and managers who are not obliged to be shareholders, in accordance with the Article 319 of the Turkish Commercial Code.

The Board of Directors fulfills activities under the scope of the Turkish Commercial Code, Capital Markets Law and related legislation.

### **23. Operating Principles of the Board of Directors**

At IS Investment, the Board of Directors convenes at least once a month. The Board of Directors may meet more frequently when it is deemed necessary. The meeting's agenda is determined by the General Manager and within the knowledge of the Chairman; the Chairman or his/her proxy announces the meeting by invitation.

As noted earlier, stakeholder(s) representing a minimum of five percent of IS Investment capital and stakeholders defined in the Corporate Governance Principles publicly disclosed by the Capital Markets Board of Turkey may invite the Board of Directors to convene by applying to the Chairman.

An Assistant General Manager has been appointed as "Reporter" to notify Board members and establish communication.

Board Members do not have weighted voting rights and/or the right to veto during a meeting.

# Corporate Governance Principles Compliance Report

## 24. Prohibition of Carrying out Transactions with the Company and Prohibition of Competing with the Company

Board Members will not receive permission from the AGM to carry out trade with IS Investment; nor will they receive exemption from the prohibition of competition as stated in the Articles of Association, in accordance with the Articles 334 and 335 of the Turkish Commercial Code.

## 25. Ethical Rules

The Board of Directors formulated a code of ethics in parallel with the regulations of the Association of Capital Market Intermediary Institutions of Turkey (TSPAKB) with the aim of increasing social and economic benefits, preserving the dignity of the brokerage vocation and preventing unfair competition in addition to legal and administrative regulations. The employees of IS Investment have been notified of the code of ethics in written format.

The code of ethics of IS Investment has also been publicly disclosed on the corporate website in accordance with IS Investment's information policy.

## 26. Numbers, Structures and Independence of Committees Established by the Board of Directors

It has been set forth in the Articles of Association that in order to fulfill its duties and responsibilities beneficially, the Board of Directors may set up committees and departments required by legislation and approved by the Board. The Board of Directors will observe Corporate Governance Principles disclosed by the CMB to set up these committees and departments.

In this respect, a Committee Responsible for Audit and a Credit Committee was established within IS Investment's Board of Directors. The Committee Responsible for Audit is composed of the Chairman Özcan Türkakın, Güzide Meltem Kökden and Fatma Güliz Aykan.

This Committee convenes at least four times a year on the condition that the time between two meetings shall not exceed three months. The committee determined the results of executed activities, precautions that should be taken in the Company, other necessary implementations and other issues vital to maintaining IS Investment's activities securely and reports these results to the Board of Directors. The reporter for the Board of Directors is responsible for following up the activities of the Committee.

The Credit Committee is structured under the leadership of a responsible Board Member appointed by the Board decision and is formed by the General Manager, Assistant General Managers responsible for Operations, Domestic Markets, Investment Advisory and Managers responsible for Operations and Domestic Markets. The Committee convenes when necessary.

## 27. Remuneration of the Board of Directors

Monthly salaries and attendance fees for Board members are determined by the AGM, as stated in the Articles of Association.

It has been decided in the Ordinary General Meeting of Shareholders held on April 28, 2008 that the salary of board members are determined as gross YTL 5.000/month. A performance-based remuneration system is not implemented for determining the financial rights of Board members.

At IS Investment, Board members and executives do not engage in transactions with the Company such as lending money, extending credit or providing guarantees.





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