**TURKISH BANK A.Ş.**
**AND ITS SUBSIDIARIES**

**CONSOLIDATED**
**FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED**
**31 DECEMBER 2011**

**Deloitte.**

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To the Board of Directors of
Turkish Bank A.Ş.
İstanbul

# INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Turkish Bank A.Ş. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated balance sheet as at 31 December 2011 and the consolidated statement of income, statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2011 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

DRT BAĞIMSIZ DENETİM VE SERBEST A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 22 March 2012

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**TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| **ASSETS** | Notes | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| Cash and cash equivalents | 5 | 6,871 | 5,763 |
| Balances with the Central Bank | 6 | 30,652 | 6,195 |
| Balances with banks | 7 | 405,222 | 427,140 |
| Money market placements | 8 | 50,318 | 11,723 |
| Financial assets at fair value through profit or loss | | | |
| -Derivative financial instruments | 9, 27 | 571 | 2,206 |
| Reserve deposits at the Central Bank | 6 | 24,692 | 38,613 |
| Loans and receivables | 10 | 263,487 | 402,522 |
| Finance lease receivables | 11 | 9,439 | 11,202 |
| Factoring receivables | 12 | 40,022 | 25,528 |
| Available-for-sale financial assets | 13 | 79,542 | 85,136 |
| Property and equipment | 14 | 10,303 | 11,373 |
| Intangible assets | 15 | 1,081 | 699 |
| Deferred tax asset | 20 | 1,693 | 234 |
| Other assets | 16 | 23,281 | 24,001 |
| **TOTAL ASSETS** | | **947,174** | **1,052,335** |

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

**TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| LIABILITIES AND EQUITY | Notes | 31 December 2011 | 31 December 2010 |
|---|---|---|---|
| **LIABILITIES** | | | |
| Deposits | 17 | 535,857 | 631,799 |
| Obligations under repurchase agreements | 18 | 45,693 | 64,331 |
| Borrowings | 19 | 178,547 | 170,408 |
| Derivative financial instruments | 27 | 15 | 414 |
| Factoring payables | | - | 4 |
| Corporate tax payable | 20 | 21 | 79 |
| Employee benefits | 21 | 1,030 | 925 |
| Other provisions | 21 | 1,109 | 657 |
| Other liabilities | 22 | 28,977 | 25,721 |
| TOTAL LIABILITIES | | 791,249 | 894,338 |
| **EQUITY** | | | |
| Share capital issued | 23 | 80,000 | 80,000 |
| Adjustment to share capital | | 25,900 | 25,900 |
| Premium in excess of par | | 37,448 | 37,448 |
| Unrealized gains/(losses) on available for sale financial assets, (net of tax) | 23 | ( 2,616) | 1,122 |
| Other reserves and retained earnings | | 15,193 | 13,527 |
| TOTAL EQUITY | | 155,925 | 157,997 |
| **TOTAL LIABILITIES AND EQUITY** | | **947,174** | **1,052,335** |

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

**TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| | Notes | 1 January-31 December 2011 | 1 January-31 December 2010 |
|---|---|---|---|
| INTEREST INCOME | | | |
| Interest on loans and receivables | | 35,010 | 25,085 |
| Interest on securities | | 6,639 | 6,682 |
| Interest received from banks | | 10,446 | 17,857 |
| Interest received from money market placements | | 439 | 320 |
| Other interest income | | 8,104 | 4,290 |
| | | 60,638 | 54,234 |
| INTEREST EXPENSES | | | |
| Interest on deposits | | ( 24,505) | ( 18,658) |
| Interest on borrowings | | ( 3,895) | ( 2,957) |
| Interest on money market borrowings | | ( 2,245) | ( 2,065) |
| | | ( 30,645) | ( 23,680) |
| NET INTEREST INCOME | | 29,993 | 30,554 |
| Fee and commission income | | 16,924 | 16,473 |
| Fee and commission expenses | | ( 1,834) | ( 1,738) |
| Net fee and commission income | | 15,090 | 14,735 |
| Net foreign currency gains / (losses) | | 9,478 | (4,512) |
| Gain / (loss) on derivative financial instruments | | (6,924) | 1,943 |
| Net securities trading gains | | 1,434 | 2,260 |
| Total trading income | | 3,988 | (309) |
| Impairment losses | | ( 2,622) | ( 1,760) |
| NET OPERATING INCOME AFTER IMPAIRMENT LOSSES | | 46,449 | 43,220 |
| Other operating income | 24 | 2,370 | 4,577 |
| Other operating expenses | 25 | ( 46,936) | ( 43,074) |
| INCOME BEFORE TAXATION | | 1,883 | 4,723 |
| Income tax expense | 20 | ( 217) | ( 1,207) |
| NET INCOME FOR THE YEAR | | 1,666 | 3,516 |
| Attributable to: | | | |
| Equity holders of the parent | | 1,666 | 3,516 |
| NET INCOME | | 1,666 | 3,516 |

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

**TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CHANGES IN OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| | 1 January-31 December 2011 | 1 January-31 December 2010 |
|---|---|---|
| Income for the year | 1,666 | 3,516 |
| Other comprehensive income | | |
| Fair value gains on available-for-sale financial assets, net of tax | ( 3,738) | 763 |
| Net change in fair values | ( 2,424) | 908 |
| Net amount transferred to income | ( 1,314) | (145) |
| Other comprehensive income for the year, net of tax | ( 3,738) | 763 |
| Total comprehensive income for the year | ( 2,072) | 4,279 |
| Total comprehensive income attributable to equity holders of the Parent | (2,072) | 4,279 |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| | Share Capital | Adjustment to share capital | Premium in Excess of Par | Unrealized gains/(losses) on available for sale financial assets, (net of tax) | Legal reserves | Accumulated gains/(losses) | Total equity attributable to equity holders of the Bank | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balances at 1 January 2010** | 80,000 | 25,900 | 37,448 | 359 | 3,587 | 6,424 | 153,718 | - | 153,718 |
| **Total comprehensive income for the year** | | | | | | | | | |
| - Profit for the year | - | - | - | - | - | 3,516 | 3,516 | - | 3,516 |
| - Other comprehensive income for the year, net of tax | - | - | - | 763 | - | - | 763 | - | 763 |
| Transfer to legal reserves | - | - | - | - | 326 | (326) | - | - | - |
| **Balance at 31 December 2010** | 80,000 | 25,900 | 37,448 | 1,122 | 3,913 | 9,614 | 157,997 | - | 157,997 |
| **Balances at 1 January 2011** | 80,000 | 25,900 | 37,448 | 1,122 | 3,913 | 9,614 | 157,997 | - | 157,997 |
| **Total comprehensive income for the year** | | | | | | | | | |
| - Profit for the year | - | - | - | - | - | 1,666 | 1,666 | - | 1,666 |
| - Other comprehensive income for the year, net of tax | - | - | - | ( 3,738) | - | - | ( 3,738) | - | ( 3,738) |
| Transfer to legal reserves | - | - | - | - | 446 | (446) | - | - | - |
| **Balance at 31 December 2011** | 80,000 | 25,900 | 37,448 | ( 2,616) | 4,359 | 10,834 | 155,925 | - | 155,925 |

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

**TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.

| | Note | 1 January – 31 December 2011 | 1 January – 31 December 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income for the year | | 1,666 | 3,516 |
| Adjustments for: | | | |
| Depreciation and amortization | 14,15 | 2,137 | 2,482 |
| Provision for loan losses | | 2,622 | 1,760 |
| Income tax expense | 20 | 217 | 1,207 |
| Provision for retirement pay and unused vacation pay | 21 | 441 | 489 |
| Bonus accrual | | 925 | 917 |
| Other provisions | | - | (6) |
| Interest and commission income accrual | | (2,737) | (537) |
| Interest expense accrual | | 476 | (176) |
| Interest accrual on cash and cash equivalents | | 1,467 | (62) |
| Other expense accruals | | (50) | 33 |
| Derivatives | | 1,236 | (1,945) |
| Gain on sale of property and equipment | | 2 | (429) |
| **Operating profit before changes in operating assets and liabilities** | | 8,402 | 7,249 |
| Changes in operating assets and liabilities: | | | |
| Net (increase)/decrease in reserve deposits with the Central Bank | | 13,921 | (11,801) |
| Net increase in loans and advances to customers | | 137,453 | (181,926) |
| Net increase in lease receivable | | 1,712 | 3,799 |
| Net increase in factoring receivable | | (14,685) | 6,793 |
| Net (increase)/decrease in financial assets at fair value through profit or loss | | - | 15 |
| Net (increase)/decrease in other assets | | 1,348 | (9,666) |
| Net increase/(decrease) in other liabilities | | 3,351 | 10,633 |
| Net increase in customer deposits and due to other banks | | (96,089) | 106,512 |
| | | 55,412 | (68,392) |
| Income taxes paid | | (1,461) | (1,046) |
| Retirement pay paid | | (314) | (309) |
| Bonus paid | | (947) | (947) |
| **Net cash generated by/(used in) operating activities** | | 52,690 | (70,694) |
| Purchase of property and equipment | 14,15 | (1,451) | (739) |
| Proceeds from sale of property and equipment | | - | 1,520 |
| Net increase in investment securities | | 3,366 | 7,249 |
| **Net cash used in investing activities** | | 1,915 | 8,030 |
| Proceeds from other borrowed funds - net of repayments | | (10,896) | (133,723) |
| **Net cash generated by financing activities** | | (10,896) | (133,723) |
| **Net change in cash and cash equivalents** | | 43,709 | (196,387) |
| **Cash and cash equivalents at the beginning of the year** | | 449,145 | 645,532 |
| **Cash and cash equivalents at the end of the year** | | 492,854 | 449,145 |

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

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - Istanbul, Turkey. The Bank operates 20 branches (2010: 21). Number of employees as of 31 December 2011 is 284 (31 December 2010: 273).

Pursuant to the permission of Competition Board dated 8 November 2008 and numbered 07-85/1045-405 and the permission of Banking Regulation and Supervision Agency dated 28 December 2008 and numbered 17591, National Bank of Kuwait acquired 31.43% of shares of the Bank amounting to TL 22,000 Thousand from Özyol Holding A.Ş. The Board of Directors approved the acquisition on 10 January 2008 and the share transfer was registered on 29 January 2008.

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000 Thousand) was raised to TL 80,000 Thousand by a cash increase of TL 10,000 Thousand. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008. The entire increase amount was paid in by the new shareholder National Bank of Kuwait as of the date of the extraordinary general meeting. The share of National Bank of Kuwait in the Bank's paid in capital increased to 40% after the capital increase. The shares issued during the capital increase are premium shares. National Bank of Kuwait paid TL 47,448 Thousand (USD 40,000,000) in respect of nominal shares of TL 10,000 Thousand and the difference of TL 37,448 Thousand was accounted as premium in excess of par.

**Nature of Activities of the Group**

For the purposes of the accompanying consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The operations of the Group consist of banking, securities brokerage, leasing and factoring.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2011 and 2010 are as follows:

| | Place of Incorporation | Effective Shareholding and Voting Rights % | |
|---|---|---|---|
| | | 31 December 2011 | 31 December 2010 |
| Turkish Yatırım A.Ş. | Turkey | 99.99 | 99.99 |
| Turkish Finansal Kiralama A.Ş. | Turkey | 99.99 | 99.99 |
| Turkish Faktoring Hizmetleri A.Ş. | Turkey | 99.99 | 99.99 |

1. GENERAL INFORMATION (cont'd)

**Nature of Activities of the Group (cont'd)**

**Turkish Yatırım A.Ş.**

Turkish Yatırım A.Ş. was established on 31 December 1996 to deal with capital market activities according to the related regulations and the Capital Market Law. The head office of the Company is located at the address of Abdi İpekçi Caddesi, No: 57, Reasürans Han Kat: 5 Harbiye - İstanbul - Turkey.

**Turkish Finansal Kiralama A.Ş.**

Turkish Finansal Kiralama A.Ş. was established on 9 May 2007 to provide financial leasing services to corporate customers, investing in industrial machinery and equipment, various equipment and transport vehicles.

**Turkish Faktoring Hizmetleri A.Ş.**

Turkish Faktoring Hizmetleri A.Ş. was established on 9 May 2007 to provide both domestic and export factoring services to industrial and commercial enterprises.

2. ADOPTION OF NEW AND REVISED STANDARDS

**New and Revised IFRSs affecting presentation and disclosure only**

None.

***New and Revised IFRSs affecting the reported financial performance and / or financial position***

None.

**New and Revised IFRSs applied with no material effect on the consolidated financial statements**

**Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)**

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendments have been applied retrospectively.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

**New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

**Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)**

The amendment encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. The amendment also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The amendments have been applied retrospectively.

**IAS 24 (Revised 2009)** ***Related Party Disclosures***

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

**IAS 32(Amendments)** ***Financial Instruments: Presentation*** **and IAS 1** ***Presentation of Financial Statements***

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

**IFRIC 14 (Amendments)** ***Pre-payment of a Minimum Funding Requirement***

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

**IFRIC 19** ***Extinguishing Financial Liabilities with Equity Instruments***

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

**New and Revised IFRSs applied with no material effect on the consolidated financial statements (cont'd)**

**Annual Improvements May 2010**

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 5 main standards/intepretations as follow: IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations;* IAS 27 *Consolidated and Separate Financial Statements*; IAS 34 *Interim Financial Reporting* and IFRIC 13 *Customer Loyalty Programmes*. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after 1 July 2010, all other amendments are effective on or after 1 January 2011.

**New and Revised IFRSs in issue but not yet effective**

**IFRS 7 *Financial Instruments: Disclosures***

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

**IFRS 9 *Financial Instruments: Classification and Measurement***

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

**New and Revised IFRSs in issue but not yet effective (cont'd)**

**IFRS 9** ***Financial Instruments: Classification and Measurement (cont'd)***

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

**IFRS 10** ***Consolidated Financial Statements***

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

**New and Revised IFRSs in issue but not yet effective (cont'd)**

**IFRS 11** ***Joint Arrangements***

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

**IFRS 13** ***Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

**IFRS 12** ***Disclosure of Interest In Other Entities***

IFRS 12 requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The new standard is mandatory for annual periods beginning on or after 1 January 2013.

**IAS 27** ***Separate Financial Statements*** **(2011)**

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

**New and Revised IFRSs in issue but not yet effective (cont'd)**

**IAS 28** ***Investments in Associates and Joint Ventures*** **(2011)**

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

**IFRS 13** ***Fair Value Measurements***

On 12 May 2011, IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for discloures on fair value measurements. The Standard does not include requirements on when fair value measurements is required; it prescribes how fair value is to be measured if another Standard requires it. The new standard is mandatory for annual periods beginning on or after 1 January 2013.

**IAS 1** ***Presentation of Financial Statements (2011) – Presentation of Items of Other Comprehensive Income***

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.

**IAS 19 (as revised in 2011)** ***Employee Benefits***

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

**Amendments to IFRS 3** ***Business Combinations***

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure')

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Statement of compliance:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### 3.2 Basis of preparation:

The consolidated financial statements have been prepared on the historical cost basis except for those assets and liabilities measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 3.3 Basis of presentation of consolidated financial statements:

The Bank and its subsidiaries maintain their books of account and prepare their financial statements in accordance with the Banking Act, based on accounting principles regulated by the Banking Regulation and Supervision Agency ("BRSA"), the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish tax legislation and relevant accounting rules and regulations. The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications, including restatement for the changes in the general purchasing power of the Turkish Lira in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" until 1 January 2006, for the purpose of fair presentation in accordance with IFRS.

### 3.4 Inflation accounting:

The financial statements of the Bank and its subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

### 3.5 Consolidation:

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.6 Income and Expense Recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight line basis wherever does not materially differ from fair value or amortized cost method.

3.7 Functional and Presentation Currency and Foreign Currency Transactions:

*Functional and presentation currency*

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira (TL), which is the functional currency of the Bank and its subsidiaries, and the presentation currency for the consolidated financial statements.

*Foreign currency translation*

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Functional and Presentation Currency and Foreign Currency Transactions (cont'd):

As at 31 December 2011 and 31 December 2010 foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2011 and 31 December 2010 exchange rates of US Dollar and Euro are as follows:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| 1 US Dollar | 1.9065 | 1.5460 |
| 1 Euro | 2.4592 | 2.0491 |

Average rates are as follows:

| | 1 January – 31 December 2011 | 1 January – 31 December 2010 |
|---|---|---|
| 1 US Dollar | 1.8578 | 1.5115 |
| 1 Euro | 2.4515 | 2.9977 |

3.8 Financial assets:

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets (cont'd):

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. The Group does not have held-to-maturity investments as of the balance sheet date.

Available-for-sale financial assets

Investments other than held-to-maturity debt securities and held for trading securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

The Group's investments are composed of Turkish Republic Government bonds, Treasury bills and Eurobonds which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets (cont'd):

Impairment of financial assets (cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.9 Financial liabilities:

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

The Group does not have financial liabilities at FVTPL as of 31 December 2011 and 2010.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Financial liabilities (cont'd):

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest-bearing deposits and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Off balance sheet commitments and contingencies

The Group deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

3.10 Fair value considerations:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted for at amortized cost but disclosure is required of fair value for comparison purposes, wherever practicable.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Fair value considerations (cont'd):

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets, and calculation of present values on an amortized cost basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

*Central Bank accounts and balances with banks:* The carrying amount is a reasonable estimate of fair value.

*Securities investments:* Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

*Loans:* The major portion of the loans is short-term and has interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

*Deposits:* Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

*Borrowings:* Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

3.11 Derivative financial instruments:

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes.

The Group's derivative transactions are mainly in the form of forwards and currency swaps.

The Group does not have any derivatives held for hedging purposes.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### 3.12 Investments Under Resale or Repurchase Transactions:

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

### 3.13 Loans and Allowance for Impairment Losses:

Loans are financial instruments extended by the Bank and accounted for at amortized cost using the effective interest rate method, except for certain loans wherever straight line accrual basis does not materially differ from amortized cost method.

Based on its evaluation of the current status of the loans granted, the Bank provides allowance for impairment losses on loans which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Bank classifies any loan which is not adequately collateralized or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

### 3.14 Leasing - the Group as lessor:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Provision for doubtful finance lease receivables and other receivables are recognized as an expense and written off against the profit for the year. Provision for receivables under follow-up is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current finance lease receivables.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.15 Leasing - the Group as Lessee:

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.16 Factoring Receivables:

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Provision for impaired factoring receivables are recognized as an expense and written off against the profit for the year. Provision for impaired factoring receivables is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current factoring receivables.

3.17 Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Intangible assets:

Intangible assets of the Group consist of computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

3.19 Impairment of non-financial assets:

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.20 Borrowing costs:

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.21 Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.22 Retirement pay provision:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

3.23 Taxation and deferred income taxes:

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

Income tax expense represents the sum of the tax currently payable and deferred tax.

*Current tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

*Deferred tax*

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.23 Taxation and deferred income taxes (cont'd):

*Deferred tax (cont'd)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred tax for the period*

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

3.24 Business and Geographical Segments:

*Business Segments*

For management purposes, the Group is currently organized into the operating divisions of banking, securities broking, leasing and factoring. These divisions are the basis on which the Group reports its primary segment information.

*Geographical Segments*

The Group's operations are mainly located in Turkey.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.25 Use of Estimates:

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

*Key sources of estimation uncertainty*

*Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.8.

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

*Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.8. For financial instruments that require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

*Critical accounting judgements in applying the Group's accounting policies*

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

*Valuation of financial instruments*

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

*Financial asset and liability classification*

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

- In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.8.

- In classifying financial assets as "available for sale", the Group has determined that it meets the description of available for sale investments set out in accounting policy 3.8.

Details of the Group's classification of financial assets and liabilities are given in note 30.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.26 Offsetting:

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

3.27 Client Assets:

Client assets, except for deposits accepted and other cash proceeds obtained, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated financial statements as customers have ownership of such assets.

## 4. SEGMENTAL INFORMATION

*Business segments*

| | 1 January-31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Banking TL'000 | Brokerage TL'000 | Leasing TL'000 | Factoring TL'000 | Eliminations and Adjustments TL'000 | Total TL'000 |
| Interest income | 51,285 | 2,116 | 1,173 | 7,060 | (996) | 60,638 |
| Interest expenses | (27,701) | (3) | (118) | (3,819) | 996 | (30,645) |
| Net interest income | 23,584 | 2,113 | 1,055 | 3,241 | - | 29,993 |
| Net fee and commission income | 1,634 | 13,217 | (5) | 244 | - | 15,090 |
| Net foreign currency gains / (losses) | 9,258 | - | 203 | 17 | - | 9,478 |
| Gain / (loss) on derivative financial instruments | (6,789) | - | (135) | | | (6,924) |
| Net securities trading gains / (losses) | 1,419 | 15 | - | - | - | 1,434 |
| Net trading income | 5,522 | 13,232 | 63 | 261 | - | 19,078 |
| Impairment losses | (2,431) | - | - | (191) | - | (2,622) |
| Net operating income after impairment | 26,675 | 15,345 | 1,118 | 3,311 | - | 46,449 |
| Other operating income | 4,284 | 60 | 8 | 47 | (2,029) | 2,370 |
| Other operating expenses | (30,416) | (13,147) | (692) | (2,685) | 4 | (46,936) |
| Income before tax | 543 | 2,258 | 434 | 673 | (2,025) | 1,883 |
| Taxation | 279 | (435) | 37 | (98) | - | (217) |
| Net income | 822 | 1,823 | 471 | 575 | (2,025) | 1,666 |

| BALANCE SHEET | 31 December 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Banking TL'000 | Brokerage TL'000 | Leasing TL'000 | Factoring TL'000 | Eliminations and Adjustments TL'000 | Total TL'000 |
| Total assets | 894,404 | 45,337 | 12,362 | 40,631 | (45,560) | 947,174 |
| Liabilities | 740,465 | 30,745 | 2,165 | 32,400 | (14,526) | 791,249 |

4. SEGMENTAL INFORMATION (cont'd)

*Business segments (cont'd)*

| | 1 January-31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Banking TL'000 | Brokerage TL'000 | Leasing TL'000 | Factoring TL'000 | Eliminations and Adjustments TL'000 | Total TL'000 |
| Interest income | 48,976 | 1,747 | 1,598 | 2,397 | (484) | 54,234 |
| Interest expenses | (22,790) | (4) | (256) | (1,114) | 484 | (23,680) |
| Net interest income | 26,186 | 1,743 | 1,342 | 1,283 | - | 30,554 |
| Net fee and commission income | 2,214 | 12,807 | (4) | 262 | (544) | 14,735 |
| Net foreign currency gains | (4,527) | - | 9 | 6 | - | (2,569) |
| Gain / (loss) on derivative financial instruments | 1,943 | - | - | - | - | 1,943 |
| Net securities trading gains | 2,236 | 24 | - | - | - | 2,260 |
| Net trading income | 1,866 | 12,831 | 5 | 268 | (544) | 14,426 |
| Impairment losses | (1,634) | - | (613) | (44) | 531 | (1,760) |
| Net operating income after impairment | 26,418 | 14,574 | 734 | 1,507 | (13) | 43,220 |
| Other operating income | 4,763 | 1,240 | 135 | 103 | (1,664) | 4,577 |
| Other operating expenses | (27,802) | (12,480) | (1,534) | (1,897) | 639 | (43,074) |
| Income before tax | 3,379 | 3,334 | (665) | (287) | (1,038) | 4,723 |
| Taxation | (502) | (681) | 40 | 42 | (106) | (1,207) |
| Net income | 2,877 | 2,653 | (625) | (245) | (1,144) | 3,516 |

| BALANCE SHEET | 31 December 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Banking TL'000 | Brokerage TL'000 | Leasing TL'000 | Factoring TL'000 | Eliminations and Adjustments TL'000 | Total TL'000 |
| Total assets | 1,029,214 | 35,125 | 14,989 | 25,943 | (52,936) | 1,052,335 |
| Liabilities | 872,359 | 22,831 | 5,263 | 20,787 | (26,902) | 894,338 |

4. SEGMENTAL INFORMATION (cont'd)

*Geographical segments*

The Group's geographical segments are based on the location of the Group's customers. The Group's activities are conducted predominantly in Turkey. The areas of operation include all the primary business segments.

TL'000

| | Assets TL'000 | Liabilities TL'000 | Non-Cash Loans TL'000 | Net Income TL'000 |
|---|---|---|---|---|
| Current Period | | | | |
| Domestic | 926,912 | 584,904 | 92,043 | 1,666 |
| European Union Countries | 6,704 | 203,668 | - | - |
| OECD Countries (*) | 781 | 1,593 | 21,415 | - |
| Off-Shore Banking Regions | 5,907 | - | 427 | - |
| USA, Canada | 972 | 736 | - | - |
| Other Countries | 5,898 | 348 | - | - |
| Total | 947,174 | 791,249 | 113,885 | 1,666 |
| Prior Period | | | | |
| Domestic | 993,575 | 687,556 | 90,749 | 3,516 |
| European Union Countries | 11,741 | 8,680 | 3,970 | - |
| OECD Countries (*) | 2 | - | - | - |
| Off-Shore Banking Regions | 29,994 | 196,952 | - | - |
| USA, Canada | 2,454 | 510 | - | - |
| Other Countries | 14,569 | 640 | - | - |
| Total | 1,052,335 | 894,338 | 94,719 | 3,516 |

(*) OECD countries except USA and Canada.

## 5. CASH AND CASH EQUIVALENTS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Cash balances –Turkish Lira ("TL") | 1,937 | 1,751 |
| Cash balances – Foreign currencies ("FC") | 4,934 | 4,012 |
| | 6,871 | 5,763 |

## 6. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Demand deposits – Turkish Lira ("TL") | 24,402 | 17 |
| Demand deposits – Foreign Currency ("FC") | 6,250 | 6,178 |
| | 30,652 | 6,195 |

b) Reserve Deposits at the Central Bank

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Reserves – Turkish Lira ("TL") | - | 23,139 |
| Reserves – Foreign Currency ("FC") | 24,692 | 15,474 |
| | 24,692 | 38,613 |

According to the regulations of Central Bank of the Republic of Turkey ("Central Bank"), banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

## 7. BALANCES WITH BANKS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Domestic Banks | | |
| Demand deposits – Turkish Lira | 237 | 41 |
| Demand deposits – Foreign Currency | 15 | 43 |
| Time deposits – Turkish Lira | 175,975 | 324,514 |
| Time deposits – Foreign Currency | 223,878 | 72,203 |
| | 400,105 | 396,801 |
| Banks Abroad | | |
| Demand deposits – Turkish Lira | 1 | 20 |
| Demand deposits – Foreign Currency | 5,116 | 4,467 |
| Time deposits – Turkish Lira | - | 18,882 |
| Time deposits – Foreign Currency | - | 6,970 |
| | 5,117 | 30,339 |
| | 405,222 | 427,140 |

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 7.50% to 10.50% (31 December 2010: from 6.35% to 8.75%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.12% to 4.10% (31 December 2010: from 0.20% to 2.50%) per annum.

## 8. MONEY MARKET PLACEMENTS / INTERBANK MONEY MARKET BORROWINGS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Funds lent under reverse repurchase agreements | 33,308 | 11,003 |
| Interbank placements | 17,010 | 720 |
| | 50,318 | 11,723 |

## 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Derivative financial instruments (Note 27) | 571 | 2,206 |

10. LOANS AND RECEIVABLES

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Short term loans | 148,594 | 276,052 |
| Medium and long term loans | 110,538 | 117,459 |
| Impaired loans | 14,565 | 18,067 |
| | 273,697 | 411,578 |
| Less: Specific allowance for impairment losses on loans | (8,101) | (8,143) |
| Less: Portfolio provision for loan losses | (2,109) | (913) |
| | (10,210) | (9,056) |
| | 263,487 | 402,522 |

Loans can be analyzed by customer groups and currency as follows:

| Customer Groups: | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Corporate customers | 165,700 | 332,974 |
| Small business | 54,713 | 44,861 |
| Consumer loans | 4,635 | 1,861 |
| Credit cards | 1,673 | 1,623 |
| Other | 9,871 | 12,192 |
| Overdue loans | 37,105 | 18,067 |
| Less: Allowance for impairment losses on loans | (10,210) | (9,056) |
| | 263,487 | 402,522 |

Interest rates charged for the above loan portfolio vary between 2.12%-48% per annum for Turkish Lira loans. For foreign currency loans the interest rates vary between 2.88%-8.5% for US Dollar loans and 4.9%-8.5% for Euro loans respectively (31 December 2010: 2.43%-37% for Turkish Lira loans, 2.43%-9.5% for US Dollar loans and 5.5%-8% for Euro loans respectively).

| Currency: | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Turkish Lira (TL) | 153,957 | 286,970 |
| US Dollar | 95,777 | 93,673 |
| Euro | 12,933 | 21,217 |
| Other currencies | 820 | 662 |
| | 263,487 | 402,522 |

10. LOANS AND RECEIVABLES (cont'd)

| 31 December 2011 | Corporate | Small Business | Consumer | Other | Total |
|---|---|---|---|---|---|
| Neither past due nor impaired | 165,700 | 54,713 | 4,635 | 11,544 | 236,592 |
| Past due not impaired | 7,769 | 13,043 | 1,519 | 209 | 22,540 |
| Individually impaired | 2,548 | 9,221 | 679 | 2,117 | 14,565 |
| Total gross | 176,017 | 76,977 | 6,833 | 13,870 | 273,697 |
| Less: allowance for individually impaired loans | (5,120) | (2,125) | (347) | (509) | (8,101) |
| Less: allowance for collectively impaired loans (*) | - | - | - | ( 2,109) | ( 2,109) |
| Total allowance for impairment | (5,120) | (2,125) | (347) | (2,618) | ( 10,210) |
| Total net | 170,897 | 74,852 | 6,486 | 11,252 | 263,487 |

| 31 December 2010 | Corporate | Small Business | Consumer | Other | Total |
|---|---|---|---|---|---|
| Neither past due nor impaired | 332,974 | 44,669 | 1,861 | 13,637 | 393,141 |
| Past due not impaired | - | 192 | - | 178 | 370 |
| Individually impaired | 4,974 | 5,404 | 339 | 7,350 | 18,067 |
| Total gross | 337,948 | 50,265 | 2,200 | 21,165 | 411,578 |
| Less: allowance for individually impaired loans | (4,974) | (2,321) | (339) | (509) | (8,143) |
| Less: allowance for collectively impaired loans (*) | - | - | - | ( 913) | ( 913) |
| Total allowance for impairment | (4,974) | (2,321) | (339) | (1,422) | ( 9,056) |
| Total net | 332,974 | 47,944 | 1,861 | 19,743 | 402,522 |

(*) Portfolio provision for loan losses is not distributed among the customer groups but presented in "Other" column.

10. LOANS AND RECEIVABLES (cont'd)

Movement in allowance for the impairment losses on loans are as follows:

| | 2011 | 2010 |
|---|---|---|
| Specific Allowance for Individual Impairment Losses: | TL'000 | TL'000 |
| As at 1 January | 8,143 | 8,237 |
| Charge for the year | 1,048 | 1,065 |
| Allowance released | (1,090) | (1,159) |
| As at 31 December | 8,101 | 8,143 |
| Portfolio Provisions for Loan Losses: | 2,109 | 913 |
| As at 31 December | 10,210 | 9,056 |

A reconciliation of the allowance for individual impairment losses on loans by customer groups is as follows:

| 31 December 2011 (TL'000) | Corporate | Small Business | Consumer | Other | Total |
|---|---|---|---|---|---|
| At January 1 | 4,974 | 2,321 | 339 | 509 | 8,143 |
| Charge for the year | 480 | 508 | 60 | - | 1,048 |
| Recoveries | (334) | (704) | (52) | - | (1,090) |
| At December 31 | 5,120 | 2,125 | 347 | 509 | 8,101 |

| 31 December 2010 (TL'000) | Corporate | Small Business | Consumer | Other | Total |
|---|---|---|---|---|---|
| At January 1 | 4,956 | 2,507 | 265 | 509 | 8,237 |
| Charge for the year | 483 | 479 | 103 | - | 1,065 |
| Recoveries | (465) | (665) | (29) | - | (1,159) |
| At December 31 | 4,974 | 2,321 | 339 | 509 | 8,143 |

10. LOANS AND RECEIVABLES (cont'd)

The total value of collaterals that the Group held for impaired loans as at 31 December 2011 was TL 8,900 Thousand (31 December 2010: TL 12,055 Thousand). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2011 was TL 80,610 Thousand (31 December 2010: 95,652 TL Thousand).

11. FINANCE LEASE RECEIVABLES

| | 2011 TL'000 | 2010 TL'000 |
|---|---|---|
| Invoiced finance lease receivables | 288 | 115 |
| Uninvoiced finance lease receivables | 6,378 | 9,040 |
| Less: Unearned interest income | (947) | (1,678) |
| Net investment in finance leases | 5,719 | 7,477 |
| Impaired lease receivables | 4,484 | 4,488 |
| Less: Reserve for impairment | (764) | (763) |
| Minimum lease payments receivable, net | 9,439 | 11,202 |

The allocation of finance lease receivables according to their maturities, excluding net of impaired lease receivables, is as follows;

| 31 December 2011 | Finance lease receivables (Gross) TL'000 | Unearned Interest TL'000 | Finance lease receivables (Net) TL'000 |
|---|---|---|---|
| 2012 | 3,690 | (642) | 3,048 |
| 2013 | 2,123 | (258) | 1,865 |
| 2014 | 767 | (45) | 722 |
| 2015 and later | 86 | (2) | 84 |
| | 6,666 | (947) | 5,719 |

| 31 December 2010 | Finance lease receivables (Gross) TL'000 | Unearned Interest TL'000 | Finance lease receivables (Net) TL'000 |
|---|---|---|---|
| 2011 | 4,205 | (975) | 3,230 |
| 2012 | 3,016 | (497) | 2,519 |
| 2013 | 1,485 | (187) | 1,298 |
| 2014 and later | 449 | (19) | 430 |
| | 9,155 | (1,678) | 7,477 |

11. FINANCE LEASE RECEIVABLES (cont'd)

The movements of allowance for impaired finance lease receivables for the years ended 31 December 2011 and 31 December 2010 are as follows:

| | 2011<br>TL'000 | 2010<br>TL'000 |
|---|---|---|
| Opening balance | 763 | 688 |
| Reserve for the year | 10 | 83 |
| Recoveries | (9) | (8) |
| Ending balance | 764 | 763 |

The distribution of lease receivables according to foreign currency types is as follows:

31 December 2011

| Foreign Currency Type | Principal(Net)<br>TL'000 | Unearned Interest<br>TL'000 |
|---|---|---|
| US Dollar | 4,965 | 323 |
| Euro | 889 | 153 |
| TL | 3,585 | 471 |
| | 9,439 | 947 |

31 December 2010

| Foreign Currency Type | Principal(Net)<br>TL'000 | Unearned Interest<br>TL'000 |
|---|---|---|
| US Dollar | 4,680 | 295 |
| Euro | 795 | 219 |
| TL | 5,727 | 1,164 |
| | 11,202 | 1,678 |

The Group has collaterals obtained for the lease receivables under follow up amounting to TL 3,734 Thousand (31 December 2010: TL 3,737 Thousand) and for the receivables that are past due but not impaired amounting to TL 464 Thousand (31 December 2010: TL 241 Thousand).

The Group revises the estimated fair values of the collaterals taken against the receivables under follow-up based on the current market conditions and considers such revised collateral amounts when determining impairment.

11. FINANCE LEASE RECEIVABLES (cont'd)

As at 31 December 2011, the Group obtained guarantees (including mortgage, bank letter of guarantees, and others) from its customers amounting to TL 7,870 Thousand (31 December 2010: TL 3,107) against its lease receivables.

12. FACTORING RECEIVABLES

| | | 31 December 2011 | |
|---|---|---|---|
| | Effective interest rate | Turkish Lira | Foreign Currency |
| Factoring receivables | 13%-27% | 40,479 | - |
| Impaired factoring receivables | | 1,723 | - |
| Less: Reserve for impairment | | (877) | - |
| Less: Deferred income | | (1,303) | - |
| Net factoring receivables | | 40,022 | - |

| | | 31 December 2010 | |
|---|---|---|---|
| | Effective interest rate | Turkish Lira | Foreign Currency |
| Factoring receivables | 9%-23% | 26,084 | - |
| Impaired factoring receivables | | 721 | - |
| Less: Reserve for impairment | | (721) | - |
| Less: Deferred income | | (556) | - |
| Net factoring receivables | | 25,528 | - |

All factoring receivables have fixed interest rates.

Movements in the reserve for impairment:

| | 1 January – 31 December 2011 TL'000 | 1 January – 31 December 2010 TL'000 |
|---|---|---|
| Reserve at beginning of year | 721 | 677 |
| Provision for impairment | 191 | 44 |
| Recoveries | (35) | - |
| Reserve at end of the year | 877 | 721 |

12. FACTORING RECEIVABLES (cont'd)

As at 31 December 2011 and 31 December 2010, aging of factoring receivables are as follows:

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Up to 30 days | 6,892 | 3,034 |
| Between 30 – 90 days | 18,285 | 13,274 |
| Between 90 – 180 days | 11,681 | 8,511 |
| Between 180 – 360 days | 2,318 | 523 |
| More than 1 year | - | 186 |
| | 39,176 | 25,528 |

As at 31 December 2011 and 31 December 2010, aging of factoring receivables past due but not impaired are as follows:

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Up to 30 days | 264 | 83 |
| Between 30 – 60 days | 5 | - |
| Between 60 – 90 days | - | - |
| | 269 | 83 |

The total value of collaterals that the Group held for past due but not impaired factoring receivables as at 31 December 2011 was TL 269 Thousand (31 December 2010: TL 83 Thousand).

13. AVAILABLE FOR SALE FINANCIAL ASSETS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Turkish Government bonds & Treasury bills denominated in TL | 72,363 | 68,401 |
| Turkish Treasury bills denominated in foreign currencies | 1,372 | 2,206 |
| Eurobonds | 5,807 | 14,529 |
| | 79,542 | 85,136 |

13. AVAILABLE FOR SALE FINANCIAL ASSETS (cont'd)

As of 31 December 2011, the government bonds and treasury bills with fair value of TL 29,691 thousand (2010: TL 58,198 thousand) and nominal value of TL 29,243 thousand (2010: TL 53,804 thousand) were sold to the Group's customers under repurchase agreements. The funds collected from those repo transactions were TL 45,693 thousand (2010: TL 64,331 thousand) and they are included in obligations under repurchase agreements.

The blocked securities kept by the Central Bank and İMKB (İstanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as at 31 December 2011 and 31 December 2010 are as follows:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Nominal Value TL'000 | Carrying Value TL'000 | Nominal Value TL'000 | Carrying Value TL'000 |
| Government bonds & Treasury bills | 15,650 | 15,448 | 8,237 | 9,349 |
| | 15,650 | 15,448 | 8,237 | 9,349 |

## 14. PROPERTY AND EQUIPMENT

| | Buildings TL'000 | Motor vehicles TL'000 | Machinery and equipment TL'000 | Furniture and fixtures TL'000 | Other fixed assets TL'000 | Leasehold improvements TL'0000 | Total TL'000 |
|---|---|---|---|---|---|---|---|
| Acquisition cost | | | | | | | |
| Opening balance, 1 January 2011 | 13,537 | 329 | 3,295 | 1,779 | 1,398 | 4,322 | 24,660 |
| Additions | - | - | 7 | 81 | 60 | 525 | 673 |
| Disposals | - | - | - | (38) | (21) | - | (59) |
| Closing balance, 31 December 2011 | 13,537 | 329 | 3,302 | 1,822 | 1,437 | 4,847 | 25,274 |
| Accumulated depreciation | | | | | | | |
| Opening balance, 1 January 2011 | (5,812) | (293) | (2,237) | (1,321) | (811) | (2,813) | (13,287) |
| Charge for the year | (277) | (8) | (402) | (177) | (162) | (715) | (1,741) |
| Disposals | - | - | - | 36 | 21 | - | 57 |
| Closing balance, 31 December 2011 | (6,089) | (301) | (2,639) | (1,462) | (952) | (3,528) | (14,971) |
| Net book value as of 31 December 2011 | 7,448 | 28 | 663 | 360 | 485 | 1,319 | 10,303 |

Premises and equipment are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

| | |
|---|---|
| Buildings | 2% |
| Motor vehicles | 20% |
| Machinery and equipment | 20% |
| Furniture and fixtures | 20% |
| Other | 20% |

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

14. PROPERTY AND EQUIPMENT (cont'd)

| | Buildings TL'000 | Motor vehicles TL'000 | Machinery and equipment TL'000 | Furniture and fixtures TL'000 | Other fixed assets TL'000 | Leasehold improvements TL'000 | Total TL'000 |
|---|---|---|---|---|---|---|---|
| Acquisition cost | | | | | | | |
| Opening balance, 1 January 2010 | 14,758 | 413 | 3,239 | 2,204 | 1,368 | 4,436 | 26,418 |
| Additions | - | 36 | 73 | 181 | 99 | 92 | 481 |
| Disposals | (1,221) | (120) | (17) | (606) | (69) | (206) | (2,239) |
| Closing balance, 31 December 2010 | 13,537 | 329 | 3,295 | 1,779 | 1,398 | 4,322 | 24,660 |
| Accumulated depreciation | | | | | | | |
| Opening balance, 1 January 2010 | (5,794) | (405) | (1,640) | (1,700) | (660) | (2,200) | (12,399) |
| Charge for the year | (293) | (9) | (607) | (200) | (188) | (739) | (2,036) |
| Disposals | 275 | 121 | 10 | 579 | 37 | 126 | 1,148 |
| Closing balance, 31 December 2010 | (5,812) | (293) | (2,237) | (1,321) | (811) | (2,813) | (13,287) |
| Net book value as of 31 December 2010 | 7,725 | 36 | 1,058 | 458 | 587 | 1,509 | 11,373 |

## 15. INTANGIBLE ASSETS

| | Software TL'000 | Total TL'000 |
|---|---|---|
| Acquisition cost | | |
| Opening balance, 1 January 2011 | 3,524 | 3,524 |
| Additions | 778 | 778 |
| Closing balance, 31 December 2011 | 4,302 | 4,302 |
| Accumulated amortization | | |
| Opening balance, 1 January 2011 | (2,825) | (2,825) |
| Charge for the year | (396) | (396) |
| Closing balance, 31 December 2011 | (3,221) | (3,221) |
| Net book value as of 31 December 2011 | 1,081 | 1,081 |

| | Software TL'000 | Total TL'000 |
|---|---|---|
| Acquisition cost | | |
| Opening balance, 1 January 2010 | 3,266 | 3,266 |
| Additions | 258 | 258 |
| Closing balance, 31 December 2010 | 3,524 | 3,524 |
| Accumulated amortization | | |
| Opening balance, 1 January 2010 | (2,379) | (2,379) |
| Charge for the year | (446) | (446) |
| Closing balance, 31 December 2010 | (2,825) | (2,825) |
| Net book value as of 31 December 2010 | 699 | 699 |

Estimated useful lives for intangible assets vary between three to twenty years.

## 16. OTHER ASSETS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Cash guarantees given to Turkish Derivative Exchange Market | 9,635 | 10,174 |
| Clearance account | 9,679 | 9,901 |
| Prepaid taxes | 596 | 563 |
| Other cash guarantees given | 514 | 476 |
| Prepaid expenses | 239 | 223 |
| Foreclosed assets | 74 | 476 |
| Other | 2,544 | 2,188 |
| | 23,281 | 24,001 |

## 17. DEPOSITS

| 31 December 2011 | Time TL'000 | Demand TL'000 | Total TL'000 |
|---|---|---|---|
| TL Deposit | | | |
| Savings deposits | 174,827 | 6,375 | 181,202 |
| Public, commercial and other enterprises | 37,988 | 5,930 | 43,918 |
| Banks | 16,757 | 630 | 17,387 |
| | 229,572 | 12,935 | 242,507 |
| FC deposits | | | |
| Savings deposits | 175,340 | 12,338 | 187,678 |
| Public, commercial and other enterprises | - | - | - |
| Banks | 86,080 | 19,592 | 105,672 |
| | 261,420 | 31,930 | 293,350 |
| | 490,992 | 44,865 | 535,857 |

Average interest rate for the deposits is 9.26% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 2.11% for US Dollar deposits and 1.56% for Euro deposits (31 December 2010: 7.44% for Turkish Lira deposits, 2.58% for US Dollar deposits and 2.93% for Euro deposits).

17. DEPOSITS (cont'd)

| 31 December 2010 | Time TL'000 | Demand TL'000 | Total TL'000 |
|---|---|---|---|
| TL Deposit | | | |
| Savings deposits | 139,930 | 8,733 | 148,663 |
| Public, commercial and other enterprises | 21,053 | 7,542 | 28,595 |
| Banks | 207,217 | 45 | 207,262 |
| | 368,200 | 16,320 | 384,520 |
| FC deposits | | | |
| Savings deposits | 153,064 | 16,168 | 169,232 |
| Public, commercial and other enterprises | - | - | - |
| Banks | 1,939 | 76,108 | 78,047 |
| | 155,003 | 92,276 | 247,279 |
| | 523,203 | 108,596 | 631,799 |

18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

| | 31 December 2011 | | |
|---|---|---|---|
| | Carrying Value of Underlying Securities TL'000 | Carrying Value of Corresponding Liability TL'000 | 31 December 2011 Repurchase Value TL'000 |
| Funds lent under reverse repurchase agreements | 16,687 | 16,343 | 16,347 |
| Available for sale investments | 29,691 | 29,350 | 29,364 |
| | 46,378 | 45,693 | 45,711 |

| | 31 December 2010 | | |
|---|---|---|---|
| | Carrying Value of Underlying Securities TL'000 | Carrying Value of Corresponding Liability TL'000 | 31 December 2010 Repurchase Value TL'000 |
| Funds lent under reverse repurchase agreements | 9,955 | 10,217 | 10,219 |
| Available for sale investments | 58,198 | 54,114 | 54,153 |
| | 68,153 | 64,331 | 64,372 |

## 19. BORROWINGS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Borrowings from abroad: | | |
| Foreign banks – TL - short-term | 5,052 | 90,901 |
| Foreign banks – FC – short-term | 141,972 | 73,986 |
| | 147,024 | 164,887 |
| Local bank borrowings: | | |
| Borrowings from local banks – TL –short term | 31,523 | 5,521 |
| Borrowings from local banks – FC – short term | - | - |
| | 31,523 | 5,521 |
| | 178,547 | 170,408 |

The interest rates for TL borrowings are between 6.5% and 15.75% (31 December 2010: 1.5% and 9.6%) while interest rates for foreign currency borrowings are between 0.02% and 4.75% (31 December 2010: 0.05% and 5.5%).

As of 31 December 2011 borrowings of the Group are payable within one year (31 December 2010: TL 1,488 Thousand borrowings of the Group are payable in long term and the rest of the borrowings are repayable within one year).

## 20. TAXATION

*Corporate Tax*

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The effective rate of tax in 2011 is 20% (2010: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2011 is 20% (2010: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate.

20. TAXATION (cont'd)

*Corporate Tax (cont'd)*

Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

*Income withholding tax*

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 10% starting from 24 April 2003. This rate was changed to 15% commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

In the accompanying consolidated financial statements corporate tax and deferred tax asset/liability are comprised of the following:

a) Balance Sheet: Corporate tax

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Corporate tax provision | 740 | 642 |
| Prepaid taxes | (719) | (563) |
| Net | 21 | 79 |

b) Income Statement

| | 1 January-31 December 2011 TL'000 | 1 January-31 December 2010 TL'000 |
|---|---|---|
| Current income tax | 740 | 642 |
| Deferred income tax | (523) | 565 |
| | 217 | 1,207 |

20. TAXATION (cont'd)

c) Total charge for the year can be reconciled to the accounting profit as follows:

| | 1 January-31 December 2011 TL'000 | 1 January-31 December 2010 TL'000 |
|---|---|---|
| Profit before income tax | 1,883 | 4,723 |
| Tax at the domestic tax rate of 20% (2010: 20%) | 377 | 945 |
| Other, net (including tax effects of expenses that are not deductible in determining taxable profit) | (160) | 262 |
| | 217 | 1,207 |

*Deferred Income Tax*

Temporary differences and corresponding deferred taxes are as follows:

| Deferred tax assets | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Timing Differences | Deferred Tax Asset / (Liability) | Timing Differences | Deferred Tax Asset / (Liability) |
| Useful life difference on fixed assets | 512 | 102 | 470 | 94 |
| Employee termination benefits and unused vacation pay liability | 926 | 185 | 759 | 152 |
| Portfolio provisions for loan losses | 2,109 | 422 | 913 | 183 |
| Available for sale financial assets valuation difference | 1,819 | 364 | 165 | 33 |
| Loan loss provision | 407 | 81 | - | - |
| Accumulated tax losses(*) | 1,995 | 399 | 95 | 19 |
| Finance lease income accrual | (49) | (10) | - | - |
| Deferred factoring interest income | 1,303 | 261 | 556 | 111 |
| Derivative financial instruments | (556) | (111) | (1,792) | (358) |
| | 8,466 | 1,693 | 1,166 | 234 |

(*) Tax losses can be carried forward for offset against future taxable income for up to 5 years. Accumulated tax losses of the Group will expire in the year 2016.

20. TAXATION (cont'd)

*Deferred Income Tax (cont'd)*

Movement of net deferred tax assets can be presented as follows:

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Deferred tax assets, net at 1 January | 234 | 986 |
| Deferred tax recognised in the profit or loss | 523 | (565) |
| Deferred income tax recognised in other comprehensive income | 936 | (187) |
| | 1,693 | 234 |

21. PROVISIONS

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Employee benefits | | |
| Provision for retirement pay | 618 | 500 |
| Provision for unused vacation | 309 | 300 |
| Provision for personnel bonus | 103 | 125 |
| | 1,030 | 925 |
| Other provisions | | |
| Provisions for the non-cash loans uncompensated | 822 | 644 |
| Other provisions | 287 | 13 |
| | 1,109 | 657 |
| Total Provisions | 2,139 | 1,582 |

The movement of unused vacation accrual is as follows:

| | 2011 TL'000 | 2010 TL'000 |
|---|---|---|
| Opening balance | 300 | 259 |
| Reserve for the year | 9 | 41 |
| Ending balance | 309 | 300 |

21. PROVISIONS (cont'd)

The movement of provision for personnel bonus is as follows:

| | 2011 TL'000 | 2010 TL'000 |
|---|---|---|
| Opening balance | 125 | 155 |
| Reserve for the year | 925 | 917 |
| Bonus payments | (947) | (947) |
| Ending balance | 103 | 125 |

*Provision for retirement pay*

Under Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated, 2422 numbered, 25 August 1999 dated and 4447 numbered with $60^{th}$ article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 2,731.85 (2010: TL 2,517.01) for each period of service at 31 December 2011.

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

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as at 31 December 2011, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5.10% and a discount rate of 10%, resulting in a real discount rate of approximately 4.66% (31 December 2010: 4.66%). The anticipated rate of forfeitures is considered.

| Provision for retirement pay | 2011 TL'000 | 2010 TL'000 |
|---|---|---|
| At 1 January | 500 | 361 |
| Current service cost | 411 | 428 |
| Interest cost | 21 | 20 |
| Retirement payments made | (314) | (309) |
| At 31 December | 618 | 500 |

## 22. OTHER LIABILITIES

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Clearance account | 10,129 | 10,685 |
| Cash guarantees received from Turkish Derivative Exchange Market customers | 9,675 | 10,174 |
| Taxes and withholdings payable | 2,012 | 1,526 |
| Other | 7,161 | 3,336 |
| | 28,977 | 25,721 |

## 23. EQUITY

Share capital:

| Shareholders | % | 31 December 2011 TL'000 | % | 31 December 2010 TL'000 |
|---|---|---|---|---|
| Özyol Holding A.Ş. | 53.77 | 43,018 | 53.77 | 43,018 |
| National Bank of Kuwait | 40.00 | 32,000 | 40.00 | 32,000 |
| Mehmet Tanju Özyol | 5.17 | 4,135 | 5.17 | 4,135 |
| Others | 1.06 | 847 | 1.06 | 847 |
| Nominal capital | 100.00 | 80,000 | 100.00 | 80,000 |
| Effect of inflation | | 25,900 | | 25,900 |
| | | 105,900 | | 105,900 |

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000 Thousand) was raised to TL 80,000 Thousand by a cash increase of TL 10,000 Thousand. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008.

The shares issued during the capital increase are premium shares. The new shareholder National Bank of Kuwait paid TL 47,448 Thousand (USD 40,000,000) in respect of nominal shares of TL 10,000 Thousand and the difference of TL 37,448 Thousand was accounted as premium in excess of par following the necessary permissions obtained.

According to the Transfer/ Abelienate and Acceptance Declaration on 12 May 2008, shares amounting to TL 4,076 Thousand owned by Türk Bankası Ltd. which correspond to 5.10% shares of the Bank's total capital amounting to TL 80,000 were transferred to Mehmet Tanju Özyol.

The share capital is divided into 8,000,000,000 (eight billion) registered shares of a nominal value of 0.01 Turkish Lira each.

23. EQUITY (cont'd)

Movement in available for sale investments valuation reserve is as follows:

| | 2011 (TL'000) | 2010 (TL'000) |
|---|---|---|
| At 1 January | 1,122 | 359 |
| Net unrealised gains on AFS | (1,489) | 1,099 |
| Realised (gains )/ losses on AFS recycled to income statement on disposal | (1,314) | (145) |
| Tax effect of net gains on AFS | (935) | (191) |
| At 31 December | (2,616) | 1,122 |

Legal reserves:

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of historical statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the historical paid-in share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% per annum of all cash dividend distributions.

## 24. OTHER OPERATING INCOME

| | 1 January-31 December 2011 TL'000 | 1 January-31 December 2010 TL'000 |
|---|---|---|
| Reversal of prior years' accruals and provisions | 902 | 2,112 |
| Commissions on public offerings | 112 | 790 |
| Other | 1,356 | 1,675 |
| | 2,370 | 4,577 |

## 25. OTHER OPERATING EXPENSES

| | 1 January-31 December 2011 TL'000 | 1 January-31 December 2010 TL'000 |
|---|---|---|
| Personnel expenses | 24,754 | 22,044 |
| Depreciation and amortization | 2,137 | 2,482 |
| Rent expenses | 3,533 | 3,348 |
| Repair and maintenance expenses | 218 | 218 |
| Marketing and sales expenses | 445 | 413 |
| Premiums paid for deposit insurance | 457 | 427 |
| Administrative expenses and other | 15,392 | 14,142 |
| | 46,936 | 43,074 |

## 26. COMMITMENTS AND CONTINGENCIES

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated financial statements, including letters of guarantee. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Letters of guarantee | | |
| Foreign currency | 80,636 | 31,729 |
| TL | 31,152 | 33,452 |
| Letters of credit | - | 2,803 |
| Other guarantees | 2,097 | 26,735 |
| Derivative financial instruments ( Note : 27) | 110,104 | 473,892 |
| Other commitments | 34,720 | 36,981 |
| | 258,709 | 605,592 |

The Bank has extended TL 45 Thousand of non-cash loans to related parties.

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 535,429 Thousand at 31 December 2011 (31 December 2010: TL 607,622 Thousand).

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table.

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Assets TL'000 | Liabilities TL'000 | Assets TL'000 | Liabilities TL'000 |
| Currency swap contracts | 204 | 15 | 2,135 | 408 |
| Forward contracts | 367 | - | 71 | 6 |
| | 571 | 15 | 2,206 | 414 |

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Notional amount in foreign currency | Notional amount in TL'000 | Notional amount in foreign currency | Notional amount in TL'000 |
| Currency swap contracts: | | | | |
| Currency purchases | | | | |
| US Dollar | 10,100,000 | 19,255 | 88,579,151 | 136,943 |
| GBP | - | - | 29,828,785 | 71,249 |
| EUR | - | - | 11,600,000 | 23,770 |
| TL | - | - | - | 1,630 |
| | | 19,255 | | 233,592 |

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Notional amount in foreign currency | Notional amount in TL'000 | Notional amount in foreign currency | Notional amount in TL'000 |
| Currency swap contracts: | | | | |
| Currency sales | | | | |
| US Dollar | - | - | 55,542,185 | 85,868 |
| GBP | - | - | 27,828,695 | 66,472 |
| EUR | - | - | 1,800,000 | 3,688 |
| TL | - | 19,130 | - | 75,961 |
| | | 19,130 | | 231,989 |

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

| Forward contracts: | 31 December 2011 Notional amount in foreign currency | 31 December 2011 Notional amount in TL'000 | 31 December 2010 Notional amount in foreign currency | 31 December 2010 Notional amount in TL'000 |
|---|---|---|---|---|
| Currency purchases | | | | |
| US Dollar | 15,488,358 | 29,528 | 1,373,489 | 2,124 |
| GBP | 320,000 | 940 | 955,440 | 955 |
| EUR | 1,482,000 | 3,645 | 200,000 | 409 |
| TL | - | 1,918 | - | 670 |
| | | 36,031 | | 4,158 |
| Currency sales | | | | |
| US Dollar | 1,286,150 | 2,452 | 1,185,205 | 1,832 |
| GBP | - | - | 500,000 | 1,194 |
| EUR | 350,000 | 861 | 550,000 | 1,127 |
| TL | - | 32,375 | - | - |
| | | 35,688 | | 4,153 |

28. DIVIDENDS

The Group did not pay any dividends during the current and the previous year.

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Özyol Holding and National Bank of Kuwait. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Özyol Group companies, and National Bank of Kuwait Group entities 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.

In the course of conducting its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and related expense and income for the years are as follows:

| Balances with related parties: | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Loans and receivables | - | 4 |
| Deposits | 8,882 | 8,906 |
| Due from banks | 964 | 771 |
| Due to other banks | - | 278 |
| Other funds borrowed | 153,289 | 158,181 |

29. RELATED PARTY TRANSACTIONS (cont'd)

| Transactions with related parties: | 1 January-31 December 2011 TL'000 | 1 January-31 December 2010 TL'000 |
|---|---|---|
| Interest income on placements | - | 74 |
| Interest expense on funds borrowed and deposits | 797 | 583 |
| Derivative financial instruments (notional amounts) | - | 137,065 |
| Gain/Loss on derivative financial instruments | (568) | - |

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 3,336 Thousand (2010: TL 2,688 Thousand).

30. FINANCIAL RISK MANAGEMENT

The Group has a Risk Management Group and is functionally independent of risk creating divisions. The Risk Management Group is responsible for identifying and analyzing the exposed risks, carrying risk policies and strategies, setting limits in activities to control these risks and finally measuring these risks. The Executive Committee is the party that submits risk strategies and policies to the Board of Directors.

The Value-at-Risk measurement is used in line with local requirements of the capital adequacy calculation.

Risks emerging in the Group's business and activities are defined as credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk, but all are considered as a whole for management purposes.

Capital management

When managing the capital the Group aims to comply with the capital requirements set by the regulators of the banking market where the Parent Bank operates; to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and to maintain a strong capital base to support the development of its business.

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if banks operate in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 31 December 2011 capital adequacy ratio calculated based on the unconsolidated statutory financial statements is 32.09% (31 December 2010: 24.74%). The Group's consolidated capital adequacy ratio based on consolidated statutory financial statements as of 31 December 2011 is 28.74% (31 December 2010: 23.55%).

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group by failing to discharge an obligation. Credit exposure arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments.

The Group determines the credit limits and restricts extension of loans and advances exceeding predetermined credit limits. The credit limits are determined for individual customers, companies, group of companies and risk groups separately for each type of product by taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

Counterparty limits are monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored daily.

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. The cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as below:

| Basic Loan Quality Categories | 31 December 2011 % | 31 December 2010 % |
|---|---|---|
| High grade | 7.44 | 72.20 |
| Standard grade | 88.93 | 24.81 |
| Sub-standard grade | 0.42 | 0.09 |
| Impaired | 2.43 | 2.46 |
| Interest accruals | 0.78 | 0.44 |
| Total | 100.00 | 100.00 |

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

An industry sector analysis of the Group's cash loans are as follows:

| Sector | 31 December 2011 TL'000 | 31 December 2011 (%) | 31 December 2010 TL'000 | 31 December 2010 (%) |
|---|---|---|---|---|
| Agriculture | 755 | 0.29 | 207 | 0.05 |
| Mining and quarrying | 521 | 0.20 | 335 | 0.09 |
| Manufacturing industry | 32,594 | 12.58 | 41,744 | 10.61 |
| Construction | 23,434 | 9.04 | 7,102 | 1.80 |
| Wholesale and Retail Trade | 4,943 | 1.91 | 2,543 | 0.65 |
| Hotel, Tourism, Food and Beverage Services | 25,849 | 9.98 | 21,391 | 5.44 |
| Transportation | 20,971 | 8.09 | 16,723 | 4.25 |
| Financial institutions | 109,354 | 42.20 | 240,034 | 61.00 |
| Real Estate and Renting Services | - | 0.00 | 47,643 | 12.11 |
| Other | 40,711 | 15.71 | 15,789 | 4.00 |
| Performing loans | 259,132 | 100.00 | 393,511 | 100.00 |
| | | | | |
| Non-performing loans | 14,565 | | 18,067 | |
| Total loans and advances to customer | 273,697 | | 411,578 | |
| Allowance for loan losses | (10,210) | | (9,056) | |
| Net loans and advances to customers | 263,487 | | 402,522 | |

An industry sector analysis of the Group's non-cash loans and commitments are as follows:

| Sector | 31 December 2011 TL'000 | 31 December 2011 (%) | 31 December 2010 TL'000 | 31 December 2010 (%) |
|---|---|---|---|---|
| Agriculture | 1,499 | 1.32 | 599 | 0.63 |
| Mining and quarrying | - | - | - | - |
| Manufacturing industry | 24,936 | 21.90 | 28,860 | 30.47 |
| Construction | 34,886 | 30.63 | 6,034 | 6.37 |
| Wholesale and Retail Trade | 838 | 0.74 | 1,921 | 2.03 |
| Hotel, Tourism, Food and Beverage Services | 12,319 | 10.82 | 12,916 | 13.64 |
| Transportation | 3,762 | 3.29 | 4,222 | 4.46 |
| Financial institutions | 29,089 | 25.54 | 31,970 | 33.75 |
| Real Estate and Renting Services | - | - | - | - |
| Other | 6,556 | 5.76 | 8,197 | 8.65 |
| Total | 113,885 | 100.00 | 94,719 | 100.00 |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

The table below shows the maximum exposure to credit risk for the components of the financial statements:

| | 31 December 2011 TL'000 | 31 December 2010 TL'000 |
|---|---|---|
| Balances with the Central Bank | 55,344 | 44,808 |
| Balances with banks | 405,222 | 427,140 |
| Money market placements | 50,318 | 11,723 |
| Financial assets at fair value through profit and loss | 571 | 2,206 |
| Loans and receivables | 263,487 | 402,522 |
| Leasing receivables | 9,439 | 11,202 |
| Factoring receivables | 40,022 | 25,528 |
| Financial assets available for sale | 79,542 | 85,136 |
| Other | 21,932 | 22,739 |
| Total | 925,877 | 1,033,004 |
| | | |
| Non cash loans and commitments | 148,605 | 131,700 |
| Total | 148,605 | 131,700 |

Credit quality per class of financial assets as of 31 December 2011 and 2010 are as follows:

| 31 December 2011 | Neither past due nor impaired TL'000 | Past due or individually impaired TL'000 | Total TL'000 |
|---|---|---|---|
| Loans (*) | | | |
| Corporate loans | 165,700 | 9,680 | 175,380 |
| Small business lending | 54,713 | 17,254 | 71,967 |
| Consumer loans | 4,635 | 1,861 | 6,496 |
| Other | 55,998 | 5,216 | 61,214 |
| Total | 281,046 | 34,011 | 315,057 |

(*) Includes Loans and Receivables, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

| 31 December 2010 | Neither past due nor impaired TL'000 | Past due or individually impaired TL'000 | Total TL'000 |
|---|---|---|---|
| Loans (*) | | | |
| Corporate loans | 332,974 | - | 332,974 |
| Small business lending | 77,518 | 7,156 | 84,674 |
| Consumer loans | 1,861 | - | 1,861 |
| Other | 13,637 | 7,019 | 20,656 |
| Total | 425,990 | 14,175 | 440,165 |

(*) Includes Loans and Receivables, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflows to fulfill the cash outflows completely on time.

The Group places its excess funds with other banks on an overnight basis to keep the liquidity risk at a minimum. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Bank. Within the monitoring and assessing the liquidity balance in the Parent Bank's assets and liabilities, the liquidity rate is calculated weekly from June 2007 onwards. The ratio during the year per statutory financial statements of the Parent Bank was as follows:

| | 31 December 2011 % | | 31 December 2010 % | |
|---|---|---|---|---|
| | FC | FC + TL | FC | FC + TL |
| Average During the Period | 143.81 | 175.79 | 125.21 | 149.80 |
| Highest | 185.22 | 203.46 | 173.98 | 187.79 |
| Lowest | 127.47 | 145.06 | 107.40 | 120.45 |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

| As at 31 December 2011 | Demand TL'000 | Up to 1 Month TL'000 | 1 to 3 Month TL'000 | 3 to 12 Month TL'000 | 1 to 5 Year TL'000 | Over 5 Year TL'000 | Unallocated TL'000 | Total TL'000 |
|---|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | | |
| Cash, cash equivalents and the balances with the Central Bank | 37,523 | 24,692 | - | - | - | - | - | 62,215 |
| Balances with banks | 5,369 | 399,853 | - | - | - | - | - | 405,222 |
| Interbank money market placements | - | 50,318 | - | - | - | - | - | 50,318 |
| Financial assets at fair value through profit or loss (net) | - | - | - | - | - | - | - | - |
| Derivative financial assets | - | 571 | - | - | - | - | - | 571 |
| Loans (net) | - | 60,180 | 46,335 | 89,869 | 42,452 | 19,863 | 4,788 | 263,487 |
| Leasing receivables(net) | - | 213 | 430 | 2,011 | 3,065 | - | 3,720 | 9,439 |
| Factoring Receivables (net) | - | 6,898 | 18,281 | 13,998 | - | - | 845 | 40,022 |
| Investment securities (net) | - | - | - | 22,247 | 10,525 | 46,770 | - | 79,542 |
| Premises and equipment (net) | - | - | - | - | - | - | 10,303 | 10,303 |
| Intangible assets (net) | - | - | - | - | - | - | 1,081 | 1,081 |
| Other assets | 11,664 | 10,778 | 158 | 587 | - | - | 94 | 23,281 |
| Deferred tax asset (net) | - | - | - | - | - | - | 1,693 | 1,693 |
| Total assets | 54,556 | 553,503 | 65,204 | 128,712 | 56,042 | 66,633 | 22,524 | 947,174 |
| LIABILITIES | | | | | | | | |
| Deposits | 44,865 | 422,905 | 63,292 | 4,795 | - | - | - | 535,857 |
| Obligations under repurchase agreements | - | 45,693 | - | - | - | - | - | 45,693 |
| Borrowings | - | 144,077 | 34,155 | 315 | - | - | - | 178,547 |
| Derivative financial liabilities | - | 15 | - | - | - | - | - | 15 |
| Factoring payables | - | 21 | - | - | - | - | - | 21 |
| Corporate tax payable | - | - | - | - | - | - | - | - |
| Employee benefits | - | - | - | - | - | - | 1,030 | 1,030 |
| Other provisions | - | - | - | - | - | - | 1,109 | 1,109 |
| Other liabilities | 11,841 | 16,786 | 154 | 36 | 43 | - | 117 | 28,977 |
| Share capital | - | - | - | - | - | - | 105,900 | 105,900 |
| Other reserves | - | - | - | - | - | - | (2,616) | (2,616) |
| Share premium | - | - | - | - | - | - | 37,448 | 37,448 |
| Retained earnings | - | - | - | - | - | - | 15,193 | 15,193 |
| Total liabilities | 56,706 | 629,497 | 97,601 | 5,146 | 43 | - | 158,181 | 947,174 |
| Net liquidity gap | (2,150) | (75,994) | (32,397) | 123,566 | 55,999 | 66,633 | (135,657) | - |
| **As at 31 December 2010** | | | | | | | | |
| Total assets | 17,129 | 668,679 | 110,789 | 48,990 | 116,175 | 62,305 | 28,268 | 1,052,335 |
| Total liabilities | 110,178 | 710,023 | 55,068 | 14,348 | 1,488 | - | 161,230 | 1,052,335 |
| Net liquidity gap | (93,049) | (41,344) | 55,721 | 34,642 | 114,687 | 62,305 | (132,962) | - |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by remaining contractual maturities:

| | Demand | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 years | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| As at 31 December 2011 (TL'000) | | | | | | | |
| Obligations under repurchase agreements | - | 45,711 | - | - | - | (18) | 45,693 |
| Deposits | 44,865 | 426,946 | 60,926 | 4,889 | - | (1,769) | 535,857 |
| Borrowings | - | 163,805 | 12,693 | 2,158 | - | (109) | 178,547 |
| Total | 44,865 | 636,462 | 73,619 | 7,047 | - | (1,896) | 760,097 |
| As at 31 December 2010 (TL'000) | | | | | | | |
| Obligations under repurchase agreements | - | 64,370 | - | - | - | (39) | 64,331 |
| Deposits | 108,592 | 458,760 | 55,332 | 10,433 | - | (1,318) | 631,799 |
| Borrowings | - | 164,788 | - | 4,229 | 1,574 | (183) | 170,408 |
| Total | 108,592 | 687,918 | 55,332 | 14,662 | 1,574 | (1,540) | 866,538 |

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

| | Up to 1 Month | 1-3 Months | Total |
|---|---|---|---|
| 31 December 2011 (TL'000) | | | |
| Inflows | 55,286 | - | 55,286 |
| Outflows | 54,818 | - | 54,818 |
| | 468 | - | 468 |
| 31 December 2010 (TL'000) | | | |
| Inflows | 237,750 | - | 237,750 |
| Outflows | 236,142 | - | 236,142 |
| | 1,608 | - | 1,608 |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The Group considers currency risk and interest rate risk as the most important constituents of market risk. These are different levels of cut-loss and cut-profit policies to control the risks that may come from the fluctuations in the market.

Other than treasury bill positions, the Group places and borrows funds on a very short term basis, mostly on overnight, keeping the market risk of these transactions at minimum level. Thus, the Group acts quickly to any unexpected fluctuation in the market.

Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in the prices of financial instruments such as government bonds and treasury bills. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

In case of any transactions that are exposed to interest rate risk, cut-loss policies are in place to control this risk. Interest rate risk is controlled and analyzed by duration analysis. Furthermore, various simulation techniques are employed in order to analyze the effects of market volatilities on the Group's balance sheet.

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date.

| As at 31 December 2011 | Up to 1 Month TL'000 | 1 to 3 Month TL'000 | 3 to 12 Month TL'000 | Over 1 Year TL'000 | Non-interest bearing TL'000 | Total TL'000 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash, cash equivalents and the balances with the Central Bank | - | - | - | - | 62,215 | 62,215 |
| Balances with banks | 399,853 | - | - | - | 5,369 | 405,222 |
| Interbank money market placements | 50,318 | - | - | - | - | 50,318 |
| Financial assets at fair value through profit or loss (net) | - | - | - | - | - | - |
| Derivative financial assets | | | | | 571 | 571 |
| Loans (net) | 100,089 | 79,574 | 57,292 | 21,744 | 4,788 | 263,487 |
| Leasing receivables(net) | 213 | 430 | 2,011 | 3,065 | 3,720 | 9,439 |
| Factoring Receivables(net) | 6,898 | 18,281 | 13,998 | - | 845 | 40,022 |
| Investment securities (net) | 28,271 | 6,535 | 37,555 | 7,181 | - | 79,542 |
| Premises and equipment (net) | - | - | - | - | 10,303 | 10,303 |
| Intangible assets (net) | - | - | - | - | 1,081 | 1,081 |
| Other assets | - | - | - | - | 23,281 | 23,281 |
| Deferred tax asset (net) | - | - | - | - | 1,693 | 1,693 |
| Total assets | 585,642 | 104,820 | 110,856 | 31,990 | 113,866 | 947,174 |
| LIABILITIES | | | | | | |
| Deposits | 422,905 | 63,292 | 4,795 | - | 44,865 | 535,857 |
| Obligations under repurchase agreements | 45,693 | - | - | - | - | 45,693 |
| Interbank money market borrowings | - | - | - | - | - | - |
| Borrowings | 144,077 | 34,155 | 315 | - | - | 178,547 |
| Derivative financial liabilities | - | - | - | - | 15 | 15 |
| Factoring payables | - | - | - | - | - | - |
| Corporate tax payable | - | - | - | - | 21 | 21 |
| Employee benefits | | | | | 1,030 | 1,030 |
| Other provisions | - | - | - | - | 1,109 | 1,109 |
| Other liabilities | - | 64 | - | - | 28,913 | 28,977 |
| Deferred tax liability (net) | - | - | - | - | - | - |
| Share capital | - | - | - | - | 105,900 | 105,900 |
| Other reserves | - | - | - | - | (2,616) | (2,616) |
| Share premium | - | - | - | - | 37,448 | 37,448 |
| Retained earnings | - | - | - | - | 15,193 | 15,193 |
| Total liabilities | 612,675 | 97,511 | 5,110 | - | 231,878 | 947,174 |
| Net interest sensitivity gap | (27,033) | 7,372 | 105,746 | 31,990 | (118,012) | - |
| **As at 31 December 2010** | | | | | | |
| Total assets | 665,275 | 213,753 | 52,412 | 14,429 | 106,466 | 1,052,335 |
| Total liabilities | 687,080 | 55,068 | 14,314 | 1,488 | 294,385 | 1,052,335 |
| Net interest sensitivity gap | (21,805) | 158,689 | 38,098 | 12,941 | (187,923) | - |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2011 and 31 December 2010, summary of average interest rates for different assets and liabilities are as follows:

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | EURO % | USD % | TL % | EURO % | USD % | TL % |
| Assets | | | | | | |
| Cash and balances with the Central Bank | - | - | - | - | - | - |
| Due from banks and other financial institutions | 0.92 | 3.23 | 9.61 | 0.30 | 0.75 | 8.03 |
| Money market placements | - | - | 10.35 | - | - | 4.36 |
| Investments available for sale | - | 8.22 | 7.73 | 7.58 | 8.48 | 7.05 |
| Loans | 7.48 | 6.74 | 16.22 | 5.94 | 7.40 | 9.39 |
| Leasing receivables | 13.94 | 10.59 | 20.99 | 5.68 | 7.67 | 18.65 |
| Factoring receivables | - | - | 19.98 | - | - | 13.70 |
| Liabilities | | | | | | |
| Bank deposits | 0.96 | 1.36 | 8.91 | - | 2.12 | 7.31 |
| Other deposits | 2.10 | 2.61 | 9.54 | 2.93 | 2.58 | 7.44 |
| Money market borrowings | - | - | 6.79 | - | - | 6.33 |
| Borrowings | 0.50 | 0.74 | 12.47 | 0.15 | 0.12 | 5.52 |

*Interest Rate Sensitivity:*

If interest rates had been changed by 1% in TL and by 0.5% in FC and all other variables were held constant, the Group's profit for the year would change by TL 1,612 Thousand (2010: TL 1,784 Thousand).

Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Long and short exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. Currency risk is also controlled through keeping a short position within local requirements.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2011 and 2010. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign currency position of the Group is as follows:

| As at 31 December 2011 | EURO | USD | Other Foreign Currencies | TL | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash, cash equivalents and the balances with the Central Bank | 2,245 | 32,758 | 873 | 26,339 | 62,215 |
| Balances with banks | 139,597 | 78,604 | 10,808 | 176,213 | 405,222 |
| Interbank money market placements | - | - | - | 50,318 | 50,318 |
| Financial assets at fair value through profit or loss (net) | - | - | - | - | - |
| Derivative financial assets | 41 | 530 | - | - | 571 |
| Loans (net) | 12,933 | 95,777 | 820 | 153,957 | 263,487 |
| Leasing receivables | 889 | 4,965 | - | 3,585 | 9,439 |
| Factoring Receivables (net) | - | - | - | 40,022 | 40,022 |
| Investment securities (net) | - | 7,179 | - | 72,363 | 79,542 |
| Premises and equipment (net) | - | - | - | 10,303 | 10,303 |
| Intangible assets (net) | - | - | - | 1,081 | 1,081 |
| Other assets | 131 | 336 | 1 | 22,813 | 23,281 |
| Deferred tax asset (net) | - | 254 | - | 1,439 | 1,693 |
| Total | 155,836 | 220,403 | 12,502 | 558,433 | 947,174 |
| LIABILITIES | | | | | |
| Deposits | 153,260 | 127,375 | 12,715 | 242,507 | 535,857 |
| Interbank money market borrowings | - | - | - | - | - |
| Obligations under repurchase agreements | - | - | - | 45,693 | 45,693 |
| Borrowings | 5,043 | 136,637 | 292 | 36,575 | 178,547 |
| Factoring payables | 2 | - | 2 | 11 | 15 |
| Corporate tax payable | - | - | - | 21 | 21 |
| Employee benefits | - | - | - | 1,030 | 1,030 |
| Other provisions | - | - | - | 1,109 | 1,109 |
| Other liabilities | 314 | 875 | 192 | 27,596 | 28,977 |
| Deferred tax liability (net) | - | - | - | - | - |
| Share capital | - | - | - | 105,900 | 105,900 |
| Other reserves | - | (1,480) | - | (1,136) | (2,616) |
| Share premium | - | - | - | 37,448 | 37,448 |
| Retained earnings | - | - | - | 15,193 | 15,193 |
| Total | 158,619 | 263,407 | 13,201 | 511,947 | 947,174 |
| Net balance sheet position | (2,783) | (43,004) | (699) | 46,486 | - |
| Off-balance sheet position | | | | | |
| Net notional amount of derivatives | 2,784 | 46,331 | 940 | 49,587 | 99,642 |
| **As at 31 December 2010** | | | | | |
| Total assets | 59,364 | 183,707 | 4,641 | 804,623 | 1,052,335 |
| Total liabilities | 78,285 | 231,193 | 9,926 | 732,931 | 1,052,335 |
| Net balance sheet position | (18,921) | (47,486) | (5,285) | 71,692 | - |
| Off-balance sheet position | | | | | |
| Net notional amount of derivatives | 19,365 | 51,366 | 4,538 | - | 75,269 |

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

*Foreign Currency Sensitivity:*

The Group is mainly exposed to EUR, GBP and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD, EUR and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against USD, EUR and GBP.

| | Change in currency rate in % | Effect on profit or loss | | Effect on equity | |
|---|---|---|---|---|---|
| | | Current Period TL'000 | Prior Period TL'000 | Current Period TL'000 | Prior Period TL'000 |
| USD | 10 | (333) | (401) | 10 | 13 |
| EUR | 10 | - | (38) | - | (6) |
| GBP | 10 | (4) | 511 | - | - |

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods. The internal control and audit mechanism contributes greatly to the management of operational risk.

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2011 and 31 December 2010, fair values of financial assets and liabilities are as follows:

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| Financial assets | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets at fair value through profit or loss | | | | |
| - Derivative financial instruments | 571 | 571 | 2,206 | 2,206 |
| Available-for-sale financial assets | 79,542 | 79,542 | 85,136 | 85,136 |
| Loans | 312,948 | 312,862 | 439,252 | 440,900 |
| Financial liabilities | | | | |
| Derivative financial instruments | 15 | 15 | 414 | 414 |
| Borrowings | 178,547 | 178,547 | 170,408 | 170,408 |
| Factoring payables | - | - | 4 | 4 |

The fair value of available for sale securities is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Loans are net of provisions for impairment. The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The fair value of deposits with no stated maturity, floating rate placements and overnight deposits is their carrying amount. The estimated fair value of bank deposits and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost are considered to approximate their respective carrying values due to their short-term nature.

## 30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair value hierarchy
The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or ,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

| 31 December 2011 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| - Derivative financial instruments | - | 571 | - | 571 |
| Available-for-sale financial assets | 79,542 | - | - | 79,542 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 15 | - | 15 |

| 31 December 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets at fair value through profit or loss | | | | |
| - Trading Securities | - | - | - | - |
| - Derivative financial instruments | - | 2,206 | - | 2,206 |
| Available-for-sale financial assets | 85,136 | - | - | 85,136 |
| Financial liabilities | | | | |
| Derivative financial instruments | - | 414 | - | 414 |

## 31. SUBSEQUENT EVENTS

The coupon payment of Turan Alem Bank bonds for January 2012, which are classified under Available for Sale Assets as of 31 December 2011, having a nominal value of TL 1,728,652 ( US $ 906, 715) and a balance sheet amount of TL 146 Thousand has not been made and the creditors have been informed that there will be a restructuring plan for the bank payables due to the financial position of the bank. The principal and coupon payment of the bond and the payment plan is not certain as of the balance sheet date and the developments will be followed by the Bank management in the subsequent period.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the directors on 22 March 2012.