KPMG

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As of and For the Year Ended
31 December 2010
with Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

11 March 2011

This report contains 2 pages of independent auditors' report and 50 pages of consolidated financial statements and notes to the consolidated financial statements.

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aktif Yatırım Bankası Anonim Şirketi:

We have audited the accompanying financial statements of Aktif Yatırım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matters:

a) The Bank has given the significant portion of non-cash loans to its related parties (Çalık Group Companies) as of reporting date.

11 March 2011
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position
As of 31 December 2010

(Currency - In thousands of Turkish Lira ("TL"))

	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	*14*	275,099	100,927
Reserve deposits at Central Bank	*15*	50,736	8,395
Trading assets	*16*	197	874
Trade and other receivables	*17*	-	1,366
Inventories	*18*	-	3,295
Loans and advances to customers	*19*	727,112	279,180
Investment securities	*20*	405,398	124,624
Investment in associate	*21*	-	19,958
Tangible assets	*22*	4,647	14,047
Intangible assets	*23*	12,832	21,850
Deferred tax assets	*13*	140	-
Other assets	*24*	3,231	2,541
Total assets		**1,479,392**	**577,057**
LIABILITIES			
Trading liabilities	*16*	212	52
Trade and other payables	*25*	-	5,339
Obligations under repurchase agreements	*26*	1,442	85,792
Financial lease liabilities		-	2,809
Debt securities issued	*27*	278,263	51,395
Funds borrowed	*28*	341,080	97,471
Provisions	*29*	3,547	713
Deferred tax liabilities	*13*	-	1,940
Other liabilities	*30*	629,096	158,353
Total liabilities		**1,253,640**	**403,864**
EQUITY			
Share capital	*31*	168,448	160,488
Reserves	*31*	5,863	5,070
Retained earnings		51,441	6,936
Total equity attributable to equity holders of the Bank		**225,752**	**172,494**
Non-controlling interest		-	699
Total equity		**225,752**	**173,193**
Total liabilities and equity		**1,479,392**	**577,057**
Commitments and contingencies	*34*		

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2010
(Currency - In thousands of Turkish Lira (“TL”))

	Note	**2010**	**2009 Restated(*)**
Interest income	*8*	70,050	40,495
Interest expense	*8*	(32,110)	(7,921)
Net interest income		**37,940**	**32,574**
Fees and commission income	*9*	30,485	5,718
Fees and commission expense	*9*	(2,151)	(491)
Net fee and commission income		**28,334**	**5,227**
Net trading income	*10*	6,861	5,320
Other income		96	-
Operating income		**73,231**	**43,121**
Net impairment on financial assets	*19, 29*	(6,416)	(1,000)
Personnel expenses	*11*	(26,876)	(18,689)
Depreciation and amortisation		(2,339)	(1,224)
Administrative expenses	*12*	(15,243)	(11,442)
Other operating expense		(3,920)	-
Total operating expenses		**(54,794)**	**(32,355)**
Share of profit of equity accounted investee	*21*	30,250	2,416
Profit before income tax		**48,687**	**13,182**
Income tax	*13*	(3,808)	(2,403)
Net profit for the year from continuing operations		**44,879**	**10,779**
Discontinued operations			
Loss from discontinued operations (net of income tax)	*7*	**(1,364)**	**(7,624)**
Net profit for the year		**43,515**	**3,155**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		410	3,095
Income tax on other comprehensive income	*13*	(82)	(376)
Other comprehensive income for the year, net of tax		**328**	**2,719**
Total comprehensive income for the year		**43,843**	**5,874**
Profit attributable to:			
Equity holders of the Bank		44,970	5,068
Non-controlling interest		(1,455)	(1,913)
Profit for the year		**43,515**	**3,155**
Total comprehensive income attributable to:			
Equity holders of the Bank		45,298	7,787
Non-controlling interest		(1,455)	(1,913)
Total comprehensive income for the year		**43,843**	**5,874**

(*) See Note 7.

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

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2010

(Currency - In thousands of Turkish Lira ("TL"))

	Note	Share Capital	Adjustment to Share Capital	Fair Value Reserve	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
At 1 January 2009		**114,000**	**24,663**	**142**	**2,130**	**23,772**	**164,707**	**(266)**	**164,441**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	5,068	5,068	(1,913)	3,155
- Other comprehensive income									
Net change in fair value of available-for-sale financial assets		-	-	2,719	-	-	2,719	-	2,719
Total other comprehensive income		-	-	**2,719**	-	-	**2,719**	-	**2,719**
Total comprehensive income for the year		-	-	**2,719**	-	**5,068**	**7,787**	**(1,913)**	**5,874**
Transactions with owners, recorded directly in equity									
-Contributions by and distributions to owners									
Capital contribution by non-controlling interest		-	-	-	-	-	-	2,878	2,878
Total transactions with owners, recorded directly in equity								**2,878**	**2,878**
Transfers									
Transfer to share capital		41,040	(19,215)	-	-	(21,825)	-	-	-
Transfer to legal reserves		-	-	-	79	(79)	-	-	-
At 31 December 2009		**155,040**	**5,448**	**2,861**	**2,209**	**6,936**	**172,494**	**699**	**173,193**
At 1 January 2010		**155,040**	**5,448**	**2,861**	**2,209**	**6,936**	**172,494**	**699**	**173,193**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	44,970	44,970	(1,455)	43,515
- Other comprehensive income									
Net change in fair value of available-for-sale financial assets		-	-	328	-	-	328	-	328
Total other comprehensive income		-	-	**328**	-	-	**328**	-	**328**
Total comprehensive income for the year		-	-	**328**	-	**44,970**	**45,298**	**(1,455)**	**43,843**
Transactions with owners, recorded directly in equity									
-Contributions by and distributions to owners									
Effect of sale of subsidiary		-	-	-	-	-	-	756	756
Capital increase in cash	*31*	7,960	-	-	-	-	7,960	-	7,960
Total transactions with owners, recorded directly in equity		**7,960**					**7,960**	**756**	**8,716**
Transfers									
Transfer to legal reserves		-	-	-	465	(465)	-	-	-
At 31 December 2010		**163,000**	**5,448**	**3,189**	**2,674**	**51,441**	**225,752**	-	**225,752**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2010
(Currency - In thousands of Turkish Lira (“TL”))

	Note	**2010**	**2009**
Cash flows from operating activities			
Net profit for the year		43,515	3,155
Adjustments for:			
Depreciation and amortisation	*22, 23*	2,339	4,669
Retirement pay provision expense		102	94
Unused vacation provision expense		283	350
Net impairment on financial assets	*19, 29*	3,784	1,000
Impairment of non-cash loans	*29*	2,632	-
Net interest income		(37,940)	(28,749)
Share of profit of equity investee	*21*	(7,914)	(2,416)
Income from sales of associate	*21*	(22,336)	-
Gain on sale of discontinued operations, net of tax	*7*	(4,434)	-
Unrealized gain/loss		13,844	(7,656)
Unrealized gain on derivative transactions		211	49
Other expense accrual		1,955	160
Income tax	*13*	3,808	1,247
		(151)	**(28,097)**
Change in reserve deposit at Central Bank		(42,333)	(3,498)
Change in trading assets		874	(20)
Change in trade and other receivables		-	(366)
Change in inventories		-	(2,007)
Change in loans and advances to customers		(417,856)	(177,674)
Change in other assets		(1,675)	1,333
Change in trade and other payables		-	4,297
Change in obligations under repurchase agreements		(84,258)	84,264
Change in other liabilities and provisions		459,191	143,201
		(86,208)	**21,433**
Interest received		61,377	37,335
Interest paid		(30,806)	(8,417)
Retirement pay provision and unused vacation paid	*29*	(77)	(161)
Income tax paid	*13*	(940)	(2,266)
Net cash (used in)/provided from operating activities		**(56,654)**	**47,924**
Cash flows from investing activities			
Purchase of investment securities		(412,021)	(216,193)
Sale of investment securities		124,642	145,018
Purchase of tangible assets		(2,134)	(12,694)
Disposal of discontinued operations, net of cash disposed of	*7*	(1,247)	--
Proceeds from the sale of tangible assets		1	16
Purchase of intangible assets		(337)	(3,546)
Development expenditure	*23*	(5,547)	(3,967)
Disposal of minority		756	-
Proceeds from sale of associate	*21*	50,208	-
Net cash used in investing activities		**(245,679)**	**(91,366)**
Cash flows from financing activities			
Change in financial lease liabilities		-	2,672
Proceeds from debt securities issued		1,312,795	51,018
Repayment of debt securities issued		(1,082,385)	-
Proceeds from borrowings		238,135	33,302
Proceeds from share capital increase	*31*	7,960	-
Capital contribution by minority shareholders		-	2,878
Net cash provided from financing activities		**476,505**	**89,870**
Net increase in cash and cash equivalents		174,172	46,428
Cash and cash equivalents on 1 January	*14*	100,927	54,499
Cash and cash equivalents on 31 December	*14*	**275,099**	**100,927**

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

Notes to the consolidated financial statements

(Currency - In thousands of Turkish Lira ("TL"))

1. Corporate information

Aktif Yatırım Bankası Anonim Şirketi (the "Bank") was incorporated under the name of Çalık Yatırım Bankası A.Ş. in Turkey in July 1999. The Bank changed its name as Aktif Yatırım Bankası A.Ş. on 1 August 2008.

The Bank operates as an "investment bank" and is mainly involved in corporate services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers, but is not entitled to receive deposits from customers.

The head office of the Bank is located at Büyükdere Cad. No: 163 Zincirlikuyu / Istanbul, and the Bank have also six branches.

On 20 December 2010, the Bank has sold its interest of 75% in Çalık Yönetim Sistemleri A.Ş. ("ÇYS") amounting to TL 2,309 to Çalık Finansal Hizmetler A.Ş.("ÇFH"). ÇYS provides consultancy services in the issues of the evaluation, organisation and restructuring of the general management of the companies established or to be established, the alteration, project and quality management thereof, the strategic planning and the preparation of the feasibilities related thereto, the management of company systems, reduction of costs and company management, industrial relations, manpower planning, production management, productivity, strategic decisions, information technology, financial, accounting and commercial matters, human resources, acquisitions and mergers, quality development, risk management, information technology management and system development and evaluation, as well as preparing computer software and databases regarding these issues.

ÇYS owns 100% of E-Kent Elektronik Ücret Toplama A.Ş. ("E-Kent") which was established in 2002. E-Kent is a provider of high-technology solutions and services for modern urban management. E-Kent sells, installs and operates electronic fare collection solutions and electronic payment systems, and provides consulting services for planning and efficiency of public transport services. E-Kent is an electronic fare collection operating company, and currently operates services in six provinces of Turkey. E-Kent has tailored its systems to meet the individual customer requirements of various railway networks, municipalities, public transport companies, car parks, cultural parks, zoos and museums located in major cities in Turkey. E-Kent is a member of the International Association of Public Transport (UITP). E-Kent has 98% of ownership in E-Tik Elektronik Transfer Kup. Ltd. Şti. ("E-Tik").

On 20 December 2010, the Bank has sold its share of 24% in ÇFH amounting to TL 50,208 to Çalık Holding A.Ş.

The main establishment purpose of ÇFH is the transactions related with purchase of Bank Kombatare Tregtare in Albania.

The subsidiaries included in consolidation and effective shareholding percentages of the Bank at 31 December 2009 are as follows:

	Place of incorporation	Effective shareholding and voting rights (%)	
		31 December 2010	31 December 2009
ÇYS	Turkey	-	75.0
E-Kent	Turkey	-	75.0
E-Tik	Turkey	-	73.5
ÇFH	Turkey	-	24.0

The Bank employs 316 people as of 31 December 2010 (31 December 2009: 236).

2. Basis of preparation

2.1 Statement of compliance

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

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Accounting Standards, Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA"). In 2009 the consolidated subsidiaries maintain their books of account and prepare their statutory financial statements in accordance with the regulations of Turkish Commercial Code and Tax Legislation.

The consolidated financial statements had been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accompanying consolidated financial statements as of 31 December 2010 are authorised for issue by the management on 11 March 2011. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in notes 4 and 5.

2.5 Change in accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Bank.

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

The financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on International Accounting Standard ("IAS") No. 29 "Financial Reporting in Hyperinflationary Economies" as of 31 December 2005. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the balance sheet date, and that corresponding figures for prior periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as of 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of TL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying financial statements starting from 1 January 2006.

3.2 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income (Note 3.19).

(ii) Associate (equity accounted investee)

The Bank's investment in associate is subsidiary for under the equity method of accounting. This is entity in which the Bank has significant influence but not control and which are neither affiliate nor joint ventures of the Bank. The investment in subsidiary is carried in the balance sheet at cost plus post-acquisition changes in the Bank's share of net assets of the subsidiary, less any impairment in value. The income statement reflects the Bank's share of the results of operations of the subsidiary. Where there has been a change recognised directly in the equity of a subsidiary, the Bank recognises its share of any changes and discloses this when applicable, in the statement of changes in equity.

The subsidiary's accounting policies conform to those by the Bank for like transactions and events.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Bank's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(Currency - In thousands of Turkish Lira (“TL”))

3. Significant accounting policies *(continued)*

3.3 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

	EUR / TL (full)	USD / TL (full)
31 December 2009	2.1603	1.5057
31 December 2010	2.0491	1.5460

3.4 Interest income / expense

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

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

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

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

3.5 Fees and commission

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

Other fees and commission income are recognised as the related services are provided.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.6 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3. Significant accounting policies *(continued)*

3.7 Income from fare collection service

(i) Goods sold

Revenue from the sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the consolidated companies and the revenue can be reliably measured. Revenue from the sale of goods is stated net of discounts and returns. Revenue is recognised when the significant risks and rewards of ownership of the goods have passed on to the buyer and the amount of revenue can be measured reliably.

(ii) Commissions

When the consolidated companies act in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the consolidated companies.

(iii) Services

Revenue from services rendered is recognised in profit or loss as the service has been rendered.

3.8 Dividends

Dividend income is recognised when the right to receive income is established.

3.9 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3. Significant accounting policies *(continued)*

3.10 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

3.11 Financial assets and liabilities

Recognition

The Bank initially recognises trade and other receivables, loans and advances to customers, held-to-maturity investment securities, trade and other payables, funds borrowed and customer accounts on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Derecognition

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

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

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Amortised cost measurement

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

Fair value measurement

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

Identification and measurement of impairment

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

Since the Bank's loan portfolio does not consist of many transactions, the Bank considers evidence of impairment at only specific asset level. All financial assets are assessed for specific impairment.

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, met of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

3.12 Cash and cash equivalents

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

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (“reverse repo or stock borrowing”), the arrangement is accounted for as cash and cash equivalents, and the underlying asset is not recognised in the Bank’s financial statements.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.13 Trading assets and liabilities

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

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

3.14 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

3.15 Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

3. Significant accounting policies *(continued)*

3.16 Loans and advances to customers

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

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

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

3.17 Investment securities

Investment securities are initially measured at fair value plus, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

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

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

3. Significant accounting policies *(continued)*

3.18 Tangible assets

Recognition and measurement

Items of tangible assets are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

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

Subsequent costs

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

Depreciation

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

The estimated useful lives for as at 31 December 2010 and 31 December 2009 are as follows:

- tangible assets 5 years
- furniture and fixtures 5 years
- motor vehicles 5 years
- other fixed assets 4-50 years

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

3. Significant accounting policies *(continued)*

3.19 Intangible assets

(i) Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

Acquisition

Goodwill represents the excess of the cost of the acquisition over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Service agreements

Service agreements acquired in a business combination are recognised at fair value at the acquisition date. The service agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the service agreements.

(iii) Software

Software acquired by the Bank is restated for the effects of inflation to 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is 1 to 15 years.

3. Significant accounting policies *(continued)*

3.20 Leased assets – lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Bank's statement of financial position.

3.21 Impairment of non-financial assets

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

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

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

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

3.22 Funds borrowed and debt securities issued

Funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.23 Provisions

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

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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

3. Significant accounting policies *(continued)*

3.24 Employee benefits

(i) Reserve for employee severance payments

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

(ii) Short-term benefits

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

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

3.25 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.26 Discontinued operations

A discontinued operation is a component of the Bank's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.27 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

4. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Bank risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Bank's credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank's basic risk management strategy.

In the first stage of the lending process, sectoral weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the Bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

		Cash at banks (excluding cash at Central Bank)		Trade and other receivables		Loans and advances to customers		Investment debt securities (held-to-maturity portfolio)	
	Note	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Carrying amount		**182,870**	**91,047**	**-**	**1,366**	**727,112**	**279,180**	**2,806**	**2,580**
Individually impaired - Non-performing financial assets		-	-	-	-	5,538	1,754	-	-
Gross amount		**-**	**-**	**-**	**-**	**5,538**	**1,754**	**-**	**-**
Allowance for impairment		-	-	-	-	(5,538)	(1,754)	-	-
Carrying amount	*14, 17, 19*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired									
- Low risk		182,870	91,047	-	-	363,758	209,885	-	-
- Medium risk		-	-	-	-	258,189	68,789	2,806	2,580
- High risk		-	-	-	-	6,120	-	-	-
- Non graded		-	-	-	1,366	99,045	506	-	-
Carrying amount		**182,870**	**91,047**	**-**	**1,366**	**727,112**	**279,180**	**2,806**	**2,580**
Carrying amount (amortised cost)	*14, 17, 19, 20*	**182,870**	**91,047**	**-**	**1,366**	**727,112**	**279,180**	**2,806**	**2,580**

Impaired loans and advances to customers, trade and other receivables and investment securities

Impaired loans and advances to customers, trade and other receivables and investment debt securities are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due to according to the contractual terms of the loans, receivables and investment debt securities.

Allowance for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan, receivable and investment debt security portfolio. This allowance is a specific loss component that relates to individually significant exposures.

Write-off policy

The Bank writes off a loan, receivable or investment debt security balance, and any related allowances for impairment losses, when Bank determines that the loan, receivable or security is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

	Trade and other receivables		Loans and advances to customers		Investment debt securities – HTM	
	Gross	Net	Gross	Net	Gross	Net
31 December 2010						
Individually impaired	-	-	5,538	-	-	-
31 December 2009						
Individually impaired	-	-	1,754	-	-	-

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over machinery, other registered securities over assets, and guarantees.

Cash loans	**31 December 2010**	**31 December 2009**
Against non-performing loans	-	-
Against neither past due nor impaired		
- Cash blockage	9,919	31,579
- Pledge on machinery	46,377	9,172
- Cheques and notes	20,094	1,436
Total	**76,390**	**42,187**

The Bank also holds collateral against non-cash loans as stated below:

Non-cash loans	**31 December 2010**	**31 December 2009**
Cash blockage	20,695	20,474
Pledge on machinery	4,557	5,251
Cheques and notes	-	5,500
	25,252	**31,225**

In addition to collaterals stated above, the Bank holds customer sureties amounting to TL 184,147 (31 December 2009 – TL 47,077) against its cash loans and advances to customers and TL 288,312 (31 December 2009 – TL 102,819) against its non-cash loans.

Concentration risk by location

The Bank's total risk for loans and advances to customers, trade and other receivables and investment debt securities (held-to-maturity portfolio) is concentrated on Turkey.

Trading assets and investment securities (available-for-sale portfolio)

The Bank held trading assets, investment securities (available-for-sale portfolio) including derivative assets of TL 402,789 (31 December 2009: TL 122,918). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	**31 December 2010**	**31 December 2009**
Government bonds, treasury bills and investment funds			
- Rated BB- (trading portfolio)	*16*	-	874
- Rated BB- (available-for-sale portfolio)	*20*	376,579	106,187
Corporate bonds			
- Rated B (available-for-sale portfolio)	*20*	26,013	15,857
Derivative assets:			
- Bank and financial institution counterparties	*16*	197	-
Fair value and carrying amount		**402,789**	**122,918**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

Concentration risk by sector

The Bank monitors concentrations of credit risk for cash loans and advances to customer and non-cash loans to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2010				31 December 2009			
Sector	**Cash Loans**	**%**	**Non-Cash Loans**	**%**	**Cash Loans**	**%**	**Non-Cash Loans**	**%**
Construction	174,134	24	300,206	22	63,585	23	94,026	19
Financial institution	82,550	11	3,912	1	47,735	17	30,404	6
General Services	151,294	21	69,660	5	32,452	12	30,542	6
Media	3,807	1	45,657	3	40,433	14	14,011	3
Outomotive	4,653	1	81,173	6	21,940	8	67,868	14
Tekstile	93,864	13	46,277	3	24,511	9	43,464	9
IT industry	16,844	2	169	-	15,616	6	531	-
Electricity industry	2,648	-	430,477	32	5,456	2	5,987	1
Iron and steel industry	2,751	-	39,479	3	5,549	2	14,687	3
Public	3,324	-	13,513	1	7,225	3	11,289	2
Machinery and equipment	12,842	2	1,469	-	1,466	1	1,014	-
Energy industry	7,733	1	133,978	10	1,241	-	108,547	22
Trade	63,546	9	68,665	5	2,861	1	40,476	8
Other	107,122	15	115,110	9	9,110	2	35,733	7
	727,112	**100**	**1,349,745**	**100**	**279,180**	**100**	**498,579**	**100**

Trade and other receivables are due from several private sector companies and city municipalities. Investment securities (held-to-maturity portfolio) are corporate bonds.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic market when it needs additional funds.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	31 December 2010	**31 December 2009**
At the end of the year	182%	158%
Average for the year	155%	194%
Maximum for the year	228%	434%
Minimum for the year	111%	110%

Residual contractual maturities of financial liabilities

	Note	**Carrying amount**	**Gross nominal inflow / (outflow)**	**On demand**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2010									
Non-derivative liabilities									
Obligations under repurchase agr.	*26*	1,442	1,442	-	1,442	-	-	-	-
Debt securities issued	*27*	278,263	282,652	-	179,958	46,855	55,839	-	-
Funds borrowed	*28*	341,080	356,446	-	71,910	206,045	78,491	-	-
Current accounts(*)	*30*	611,483	613,046	560,075	11,796	-	41,175	-	-
Derivative financial instruments									
Outflow	*16*	(197)	(86,355)	-	(85,843)	(512)	-	-	-
Inflow	*16*	212	86,368	-	85,845	523	-	-	-
		1,232,283	**1,253,599**	**560,075**	**265,108**	**252,911**	**175,505**	**-**	**-**

(*) Included in other liabilities.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of financial liabilities *(continued)*

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2009									
Non-derivative liabilities									
Trade and other payables	*25*	5,339	5,339	1,731	95	1,854	827	-	832
Obligations under repurchase agr.	*26*	85,792	85,792	-	85,792	-	-	-	-
Financial lease liabilities		2,809	3,127	-	11	16	580	2,520	-
Debt securities issued	*27*	51,395	54,556	-	20,191	6,323	28,042	-	-
Funds borrowed	*28*	97,471	98,863	-	12,795	33,112	52,324	632	-
Current accounts(*)	*30*	126,402	126,935	34,907	36,395	39,829	15,804	-	-
Derivative financial instruments									
Outflow	*16*	-	(8,118)	-	(5,107)	-	(3,011)	-	-
Inflow	*16*	52	8,177	-	5,099	-	3,078	-	-
		369,260	**374,671**	**36,638**	**155,271**	**81,134**	**97,644**	**3,152**	**832**

(*) Included in other liabilities.

The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO").

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's portfolios is Standard Method.

A summary of the Standard Method position of the Bank's portfolios on 31 December 2010 and 31 December 2009 and during the period is as follows:

	At the end of the year	Average	Maximum	Minimum
31 December 2010				
Foreign currency risk	179	200	329	40
Interest rate risk	7,851	4,089	7,851	2,829
Equity risk	-	115	170	88
	8,030	**4,404**	**8,350**	**2,957**
31 December 2009				
Foreign currency risk	1,850	1,825	5,425	288
Interest rate risk	35,325	19,238	35,325	14,225
	37,175	**21,063**	**40,750**	**14,513**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2010									
Cash and cash equivalents	*14*	275,099	-	242,917	32,182	-	-	-	-
Reserve deposits at Central Bank	*15*	50,736	-	-	50,736	-	-	-	-
Trading Assets	*16*	197	-	-	197	-	-	-	-
Loans and advances to customers	*19*	727,112	-	-	234,992	216,822	98,046	175,663	1,589
Investment securities – AFS	*20*	402,592	-	-	1,270	478	25,016	340,701	35,127
Investment securities – HTM	*20*	2,806	-	-	-	-	-	2,806	-
		1,458,542	**-**	**242,917**	**319,377**	**217,300**	**123,062**	**519,170**	**36,716**
Obligations under repurchase agr.	*26*	1,442	-	-	1,442	-	-	-	-
Debt securities issued	*27*	278,263	-	-	222,185	22,555	33,523	-	-
Funds borrowed	*28*	341,080	-	-	267,058	71,390	2,632	-	-
		620,785	**-**	**-**	**490,685**	**93,945**	**36,155**	**-**	**-**
Interest rate gap		**837,757**	**-**	**242,917**	**(171,308)**	**123,355**	**86,907**	**519,170**	**36,716**

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2009									
Cash and cash equivalents	*14*	100,927	-	3,271	97,656	-	-	-	-
Reserve deposits at Central Bank	*15*	8,395	8,395	-	-	-	-	-	-
Trade and other receivables	*17*	1,366	-	-	1,366	-	-	-	-
Loans and advances to customers	*19*	279,180	-	-	243,342	6,972	17,802	11,064	-
Investment securities – AFS	*20*	122,044	-	-	-	-	-	122,044	-
Investment securities – HTM	*20*	2,580	-	-	-	-	-	2,580	-
		514,492	**8,395**	**3,271**	**342,364**	**6,972**	**17,802**	**135,688**	**-**
Trade and other payables	*25*	5,339	-	1,731	1,949	-	827	-	832
Obligations under repurchase agr.	*26*	85,792	-	-	85,792	-	-	-	-
Financial lease liabilities		2,809	-	-	26	7	546	2,230	-
Debt securities issued	*27*	51,395	-	-	25,202	-	26,193	-	-
Funds borrowed	*28*	97,471	-	-	45,729	23,928	27,319	495	-
		242,806	**-**	**1,731**	**158,698**	**23,935**	**54,885**	**2,725**	**832**
Interest rate gap		**271,686**	**8,395**	**1,540**	**183,666**	**(16,963)**	**(37,083)**	**132,963**	**(832)**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

	Profit or loss		Equity	
At 31 December 2010	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Trading securities	-	-	-	-
Investment securities – available-for-sale	-	-	(6,218)	6,482
	-	**-**	**(6,218)**	**6,482**

	Profit or loss		Equity	
At 31 December 2009	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Trading securities	(13)	13	(13)	13
Investment securities – available-for-sale	-	-	(1,620)	1,650
	(13)	**13**	**(1,633)**	**1,663**

Summary of average interest rates

As of 31 December 2010 and 31 December 2009, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2010			31 December 2009		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	0.75	-	-	0.15	0.17	6.61
Deposits at Central Bank	-	-	-	-	-	5.20
Trading assets	-	-	-	-	-	9.45
Loans and advances to customers	6.72	6.39	9.81	9.11	9.05	15.65
Investment securities – AFS	7.28	9.55	7.88	-	8.50	9.63
Investment securities – HTM	-	8.50	-	-	8.50	-
Liabilities						
Obligations under repurchase agreements	-	-	11.69	-	-	7.25
Financial lease liabilities	-	-	-	3.16	-	18.30
Debt securities issued	-	-	8.06	-	-	9.87
Funds borrowed	3.18	2.57	7.78	5.74	4.87	-

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of audit.

Foreign currency risk

	Euro	USD	JPY	Other	Total
31 December 2010					
Cash and cash equivalents	205,177	1,624	24,616	740	232,157
Reserve deposits at Central Bank	50,736	-	-	-	50,736
Loans and advances to customers	155,562	141,354	-	-	296,916
Investment securities – AFS	18,837	32,941	-	-	51,778
Investment securities – HTM	-	2,806	-	-	2,806
Other assets	3,807	18	-	-	3,825
Funds borrowed	(21,823)	(84,680)	-	-	(106,503)
Other liabilities	(441,147)	(72,200)	(24,613)	(262)	(538,222)
Net balance sheet position	**(28,851)**	**21,863**	**3**	**478**	**(6,507)**
Forward exchange contracts	26,695	(22,195)	265	(153)	4,612
Net position	**(2,156)**	**(332)**	**268**	**325**	**(1,895)**

	Euro	USD	JPY	Other	Total
31 December 2009					
Cash and cash equivalents	32,890	30,304	59	210	63,463
Reserve deposits at Central Bank	-	8,395	-	-	8,395
Loans and advances to customers	34,676	92,830	-	-	127,506
Trade and other receivables	63	-	-	-	63
Investment securities – AFS	-	15,857	-	-	15,857
Investment securities – HTM	-	2,580	-	-	2,580
Other assets	7,352	75	-	-	7,427
Trade and other payables	(88)	(7)	-	-	(95)
Funds borrowed	(41,083)	(54,187)	-	-	(95,270)
Finance lease liabilities	(2,809)	-	-	-	(2,809)
Other liabilities	(43,220)	(89,038)	-	-	(132,258)
Net balance sheet position	**(12,219)**	**6,809**	**59**	**210**	**(5,141)**
Forward exchange contracts	(2,808)	1,144	-	1,434	(230)
Net position	**(15,027)**	**7,953**	**59**	**1,644**	**(5,371)**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2010 and 31 December 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2010	Equity	Profit or loss
Euro	(216)	(200)
USD	(33)	(88)
Other currencies	59	59
	(190)	**(229)**

31 December 2009	Equity	Profit or loss
Euro	(1,503)	(1,503)
USD	795	599
Other currencies	170	170
	(538)	**(734)**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2010 and 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Capital management

The Bank's lead regulator, BRSA sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements of BRSA requires the Bank to maintain an 8% ratio of total capital to total risk-weighted assets.

As of 31 December 2010, the Bank's capital adequacy ratio is 12.65% (31 December 2009 – 21.29%).

5. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

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 3.11.

The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Impairment and uncollectibility are measured and recognised individually for loans and receivables.

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 3.11. For financial instruments that require varying degrees of judgement depending 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 Bank's accounting policies

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

Impairment of investment in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.11.

For an investment in an equity security, a significant or prolonged decline it its fair value below its cost is objective evidence of impairment: In this respect, the Bank regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.11.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

(Currency - In thousands of Turkish Lira ("TL"))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

Valuation of financial instruments (continued)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2010	Note	Level 1	Level 2	Level 3	Total
Trading assets	*16*	-	197	-	197
Investment securities – AFS portfolio	*20*	394,700	7,892	-	402,592
		394,700	**8,089**	**-**	**402,789**
Trading liabilities	*16*	-	(212)	-	(212)
		394,700	**7,877**	**-**	**402,577**

At 31 December 2009		Level 1	Level 2	Level 3	Total
Trading assets	*16*	874	-	-	874
Investment securities – AFS portfolio	*20*	122,044	-	-	122,044
		122,918	**-**	**-**	**122,918**
Trading liabilities	*16*	-	(52)	-	(52)
		122,918	**(52)**	**-**	**(122,866)**

Financial asset and liability classification

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

In classifying financial assets and liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.13.

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial assets and liabilities

Accounting classification and fair values

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

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

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2010								
Cash and cash equivalents	*14*	-	275,099	-	-	-	275,099	275,099
Reserve deposits at Central Bank	*15*	-	50,736	-	-	-	50,736	50,736
Trading assets	*16*	197	-	-	-	-	197	197
Loans and advances to customers	*19*	-	727,112	-	-	-	727,112	726,335
Investment securities – AFS	*20*	-	-	402,592		-	402,592	402,592
Investment securities – HTM	*20*	-	-	-	2,806	-	2,806	3,020
		197	**1,052,947**	**402,592**	**2,806**	**-**	**1,458,542**	**1,457,979**
Trading liabilities	*16*	212	-	-	-	-	212	212
Obligations under rep. agr.	*26*	-	-	-	-	1,442	1,442	1,442
Debt securities issued	*27*	-	-	-	-	278,263	278,263	278,263
Funds borrowed	*28*	-	-	-	-	341,080	341,080	341,080
		212	**-**	**-**	**-**	**620,785**	**620,997**	**620,997**

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2009								
Cash and cash equivalents	*14*	-	100,927	-	-	-	100,927	100,927
Reserve deposits at Central Bank	*15*	-	8,395	-	-	-	8,395	8,395
Trading assets	*16*	874	-	-	-	-	874	874
Trade and other receivables	*17*	-	1,366	-	-	-	1,366	1,366
Loans and advances to customers	*19*	-	279,180	-	-	-	279,180	279,180
Investment securities – AFS	*20*	-	-	122,044	-	-	122,044	122,044
Investment securities – HTM	*20*	-	-	-	2,580	-	2,580	2,423
		874	**389,868**	**122,044**	**2,580**	**-**	**515,366**	**515,209**
Trading liabilities	*16*	52	-	-	-	-	52	52
Trade and other payables	*25*	-	-	-	-	5,339	5,339	5,339
Obligations under rep. agr.	*26*	-	-	-	-	85,792	85,792	85,792
Financial lease liabilities		-	-	-	-	2,809	2,809	2,809
Debt securities issued	*27*	-	-	-	-	51,395	51,395	51,395
Funds borrowed	*28*	-	-	-	-	97,471	97,471	97,471
		52	**-**	**-**	**-**	**242,806**	**242,858**	**242,858**

(Currency - In thousands of Turkish Lira ("TL"))

7. Discontinued operations

On 20 December 2010, the Bank has sold its interest of 75% in ÇYS; the subsidiary was not discontinued operation or classified as held for sale at 31 December 2009 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. Although the sale has occurred on 20 December 2010, the financial statements of ÇYS as of 31 December 2010 has been used in the preparation of the accompanying financial statements.

	31 December 2010
Cash and cash equivalents	3,556
Trade and other receivables	2,187
Inventories	3,977
Tangible assets	14,271
Intangible assets	11,153
Other assets	1,470
Assets from discontinued operations	**36,614**
Trade and other payables	4,874
Finance lease liabilities	4,153
Funds borrowed	29,993
Deferred tax liabilities	106
Other liabilities	480
Liabilities from discontinued operations	**39,606**
Net assets/ (liabilities)	**(2,992)**

Consideration received, satisfied in cash	2,309
Cash and cash equivalents disposed of	(3,556)
Net cash outflow	**(1,247)**

Results of discontinued operations	31 December 2010	31 December 2009
Interest expense	(3,043)	(3,873)
Net interest expense	**(3,043)**	**(3,873)**
Net trading income	1,342	58
Income from fare collection services	14,492	11,340
Cost of fare collection services	(4,880)	(4,107)
Operating income	**7,911**	**3,418**
Personnel expenses	(8,122)	(6,239)
Depreciation and amortisation	(5,214)	(3,445)
Administrative expenses	(1,265)	(1,930)
Other operating expense	(470)	(584)
Total operating expense	**(15,071)**	**(12,198)**
Loss before income tax	**(7,160)**	**(8,780)**
Income tax	1,362	1,156
Results from operating activities, net of tax	**(5,798)**	**(7,624)**
Gain on sale of discontinued operations	4,533	-
Income tax on gain on sale of subsidiary (Note 13)	(99)	-
Loss from discontinued operations	**(1,364)**	**(7,624)**

(Currency - In thousands of Turkish Lira ("TL"))

7. Discontinued operations (continued)

Cash flows from (used in) discontinued operation is as stated below:

	31 December 2010	31 December 2009
Net cash used in operating activities	10,002	(2,331)
Net cash from investing activities	(1,247)	(1,941)
Net cash from financing activities	(4,153)	2,581
Net cash flows for the year	**4,602**	**(1,691)**

8 Net Interest Income

	31 December 2010	31 December 2009
Interest income		
Loans and advances to customers	52,294	32,183
Investment securities	15,571	7,196
Cash and cash equivalents	1,835	894
Other	350	222
Total interest income	**70,050**	**40,495**
Interest expense		
Funds borrowed	10,497	4,220
Debt issued	14,482	582
Money market transactions	1,858	873
Other	5,273	2,246
Total interest expense	**32,110**	**7,921**
Net interest income	**37,940**	**32,574**

(Currency - In thousands of Turkish Lira ("TL"))

9. Net fee and commission income

	31 December 2010	31 December 2009
Fee and commission income		
Financial guarantee contracts issued	9,611	4,260
Remittance fee	15,738	24
Other	5,136	1,434
Total fee and commission income	**30,485**	**5,718**
Fee and commission expense		
Other	2,151	491
Total fee and commission expense	**2,151**	**491**
Net fee and commission income	**28,334**	**5,227**

10. Net trading income

	31 December 2010	31 December 2009
Foreign exchange gain	2,626	1,115
Fixed income	4,235	4,205
Total	**6,861**	**5,320**

11. Personnel expenses

	31 December 2010	31 December 2009
Wages and salaries	23,342	16,821
Compulsory social security obligations	1,752	1,123
Employee termination indemnity and vacation pay liability(net)	385	281
Other	1,397	464
Total	**26,876**	**18,689**

(Currency - In thousands of Turkish Lira ("TL"))

12. Administrative expenses

	31 December 2010	31 December 2009
Publicity expenses	3,447	2,300
Rent expenses	3,351	3,312
Taxes and dues other than on income	1,646	749
Expenses on vehicles	1,373	1,133
Communication expenses	1,054	620
Software maintenance expenses	1,047	437
Consultancy expenses	721	612
Representation expenses	707	434
Travelling expenses	619	458
Reuters expenses	359	303
Subscription expenses	144	52
Maintenance expenses	64	99
Publicity expenses	-	507
Others	711	426
Total	**15,243**	**11,442**

13. Taxation

General information

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, effective from 1 January 2006 corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

As of 31 December 2010 and 31 December 2009, the current tax liability is as follows:

	31 December 2010	31 December 2009
Income tax liability	4,926	-
Prepaid taxes	(940)	(189)
(Prepaid taxes) / Income taxes payable	**3,986**	**(189)**

(Currency - In thousands of Turkish Lira ("TL"))

13. Taxation *(continued)*

For the year ended 31 December 2010 and 31 December 2009, the income tax expense recognised in comprehensive income statement and income tax recognised directly in equity are as follows:

Recognised in income statement

	31 December 2010	31 December 2009
Current tax expense from continuing operations	(4,126)	(3,214)
Deferred tax from continuing operations	318	811
- Origination and reversal of temporary differences	*318*	*10*
- Tax loss carry-forwards	*-*	*801*
Income tax from discontinued operations	1,362	1,156
Income tax on gain on sale of discontinued operations	(99)	-
Total income tax	**(2,545)**	**(1,247)**

Income tax recognised directly in equity

	31 December 2010	31 December 2009
Available-for-sale investment securities		
- Deferred tax	294	(357)
- Current tax	(376)	(19)
	(82)	**(376)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2010 and 31 December 2009 is as follows:

	31 December 2010	Rate %	31 December 2009	Rate %
Profit for the year	43,515		3,155	
Total Income tax expense	(2,545)		(1,247)	
Profit before income tax	**46,060**		**4,402**	
Income tax using the domestic corporation tax rate 20%	(9,212)	(20.00)	(880)	(20.00)
Non-deductible expenses	(43)	(0.09)	(275)	(6.25)
Tax exempt income	5,132	11.14	483	10.97
Other	1,578	3.43	(575)	(13.06)
Total income tax in the income statement	**(2,545)**	**(5.52)**	**(1,247)**	**(28.34)**

(Currency - In thousands of Turkish Lira ("TL"))

13. Taxation *(continued)*

Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the balance sheet and recognised in profit or loss and in equity are as follows:

	31 December 2010			31 December 2009		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Available-for-sale investment securities	177	(99)	78	104	(392)	(288)
Held-to-maturity investment securities	24	-	24	11	-	11
Derivative financial instruments	42	(39)	3	10	-	10
Tax loss carry-forwards	-	-	-	956	-	956
Retirement pay liability	18	-	18	14	-	14
Unused vacation liability	165	-	165	123	-	123
Machinery, equipment and intangible assets	-	(306)	(306)	389	(3,227)	(2,838)
Other	178	(20)	158	72	-	72
Deferred tax assets / (liabilities)	**604**	**(464)**	**140**	**1,679**	**(3,619)**	**(1,940)**

Reflected in the consolidated balance sheet as follows:

	31 December 2010	31 December 2009
Deferred tax assets/liabilities	140	(1,940)
	140	**(1,940)**

(Currency - In thousands of Turkish Lira ("TL"))

13. Taxation *(continued)*

Deferred tax *(continued)*

Movements in temporary differences during the year

31 December 2010	Opening balance	Recognised in profit or loss	Effect of disposal of subsidiary	Recognised in equity	Closing balance
Available-for-sale investment securities	(288)	72	-	294	78
Held-to-maturity investment securities	11	13	-	-	24
Derivative financial instruments	10	(7)	-	-	3
Tax loss carry-forwards	956	-	(956)	-	-
Retirement pay liability	14	5	(1)	-	18
Unused vacation liability	123	57	(15)	-	165
Machinery, equipment and intangible assets	(2,838)	22	2,510	-	(306)
Repurchase agreement	-	(8)	-	-	(8)
Debt securities issued	-	(13)			(13)
Other	72	177	(70)	-	179
	(1,940)	**318**	**1,468**	**294**	**140**

31 December 2009	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	183	(114)	(357)	(288)
Held-to-maturity investment securities	-	11	-	11
Derivative financial instruments	-	10	-	10
Tax loss carry-forwards	155	801	-	956
Retirement pay liability	15	(1)	-	14
Unused vacation liability	66	57	-	123
Machinery, equipment and intangible assets	(2,859)	21	-	(2,838)
Other	46	26	-	72
	(2,394)	**811**	**(357)**	**(1,940)**

(Currency - In thousands of Turkish Lira ("TL"))

14. Cash and cash equivalents

	31 December 2010	31 December 2009
Cash and balances with Central Bank	92,229	9,862
- Cash on hand	*1,974*	*1,545*
- Money in transit	*28,687*	-
- Balances with Central Bank	61,568	*8,317*
Placements with other banks	182,870	64,542
Other money market placements	-	26,505
Other	-	18
Total	**275,099**	**100,927**

15. Reserve deposits at Central Bank

	31 December 2010	31 December 2009
Foreign currency	50,736	8,395
	50,736	**8,395**

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

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR at the rates of 6% and 11%, respectively as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (31 December 2009 – 5% for TL and 9% for USD or EUR).

As of 31 December 2010, TRY reserve deposits are non-interest earning (31 December 2009 – 5.20% for TL). As of 31 December 2010 and 31 December 2009, foreign currency reserve deposits are non-interest earning.

(Currency - In thousands of Turkish Lira ("TL"))

16. Trading assets and liabilities

Trading assets

	31 December 2010	31 December 2009
Trading securities		
- Government bonds and treasury bills	-	874
- Fund	-	-
Derivative assets		
- Foreign exchange	197	-
	197	**874**

Trading liabilities

	31 December 2010	31 December 2009
Derivative liabilities		
- Foreign exchange	212	52
	212	**52**

As of 31 December 2010, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As of 31 December 2010, no trading debt securities pledged under repurchase agreements (31 December 2009 – TL 874).

As of 31 December 2010 and 31 December 2009, all trading debt securities have fixed interest rates.

On the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the Bank is committed are as follows:

	31 December 2010	31 December 2009
Forward foreign exchange contracts – buy(*)	51,312	3,673
Forward foreign exchange contracts – sell(*)	51,311	3,665
Swap foreign exchange contracts – buy	34,385	4,445
Swap foreign exchange contracts – sell	34,859	4,512

(*) Included spot and forward transactions.

17. Trade and other receivables

	31 December 2010	31 December 2009
Receivables from customers, net	-	1,356
- Receivables from customers, gross	-	*1,356*
- Less impairment for receivables from customers	-	-
Cheques receivable	-	10
	-	**1,366**

There is no balance of this account as of 31 December 2010 because of discontinued operations.

(Currency - In thousands of Turkish Lira ("TL"))

18. Inventories

	31 December 2010	31 December 2009
Trading goods	-	3,295
	-	**3,295**

Trading goods consisted of E-kent's inventories such as tickets and cards for electronic fare collection. There is no balance of this account as of 31 December 2010 because of discontinued operations.

19. Loans and advances to customers

As of 31 December 2010 and 31 December 2009, all the loans and advances to customers are at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2010			31 December 2009		
Corporate customers:						
- Finance leases	3,807	-	3,807	7,274	-	7,274
- Other lending	728,843	(5,538)	723,305	273,660	(1,754)	271,906
	732,650	**(5,538)**	**727,112**	**280,934**	**(1,754)**	**279,180**

Allowance for impairment

	31 December 2010	31 December 2009
Balance on 1 January	1,754	450
Transfers from provision for non-cash loans to cash – loans	-	
Impairment loss for the year	3,784	1,000
- Charge for the year	3,826	1,018
- Recoveries	(42)	(18)
Balance at the end of the year	**5,538**	**1,754**

Finance lease receivables

Loans and advances to customers include the following finance lease receivables.

	31 December 2010	31 December 2009
Gross investment in finance leases, receivable:		
- Less than one year	2,245	4,328
- Between one and five years	1,816	3,921
	4,061	**8,249**
Unearned future income on finance leases	(254)	(975)
Net investment in finance leases	**3,807**	**7,274**
The net investment in finance leases comprises:		
- Less than one year	2,053	3,622
- Between one and five years	1,754	3,652
	3,807	**7,274**

(Currency - In thousands of Turkish Lira ("TL"))

20. Investment securities

	31 December 2010			31 December 2009
	Interest rate %	**Latest maturity**	**Carrying amount**	**Carrying amount**
Held-to-maturity investment securities				
- Corporate bonds	8.50	2012	2,806	2,580
Available-for-sale investment securities				
- Government bonds	11.88-5.13	2011-2030	376,579	106,187
- Corporate bonds	8.50-10.00	2012	26,013	15,857
			405,398	**124,624**

On 7 August 2008, 13 August 2008, 3 October 2008, 19 February 2009, 1 December 2009 and 21 June 2010, the Bank purchased with a nominal value of USD 14,000,000 of corporate bonds of Çalık Holding A.Ş. which is the main shareholder of the Bank. The Bank classified USD 12,000,000 of these bonds to available-for-sale investment securities and USD 2,000,000 to held-to-maturity investment securities. The bonds have a maturity of 5 March 2012 and semi-annual coupon payments with 8.50%-10.00% of interest. Market value of corporate bonds of Çalık Holding A.Ş. is TL 18,122 as at 31 December 2010. The remaining amount of TL 25,765 consists of Turkish Eurobond issued by the Central Bank of Turkey.

As at 31 December 2010, TL 19,671 of investment securities is given as collateral for performing transaction at stock exchange of TL 37,419 and repurchase agreement of TL 1,472 and (31 December 2009: performing transaction at stock exchange of TL 5,660 and repurchase agreement of TL 94,719).

21. Investment in associate

On 20 December 2010, the Bank has sold its interest of 24% in ÇFH to Çalık Holding A.Ş.

	31 December 2010
Share of Bank in net asset of ÇFH	(27,872)
Consideration received	50,208
Gain on sale of ÇFH	**22,336**

	31 December 2010	**31 December 2009**
Beginning net assets	19,958	17,542
Share of profit of equity accounted investee	7,914	2,416
Gain on sale of ÇFH	22,336	-
Consideration received	(50,208)	-
Investment in associate	**-**	**19,958**

(Currency - In thousands of Turkish Lira ("TL"))

22. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor Vehicles	Other fixed assets	Total
Cost						
Balance on 1 January 2009	2,346	1,346	1,213	99	13	5,017
Additions	9,518	1,565	1,489	-	122	12,694
Disposals	-	(1)	(30)	(17)	-	(48)
Balance on 31 December 2009	**11,864**	**2,910**	**2,672**	**82**	**135**	**17,663**
Balance on 1 January 2010	11,864	2,910	2,672	82	135	17,663
Additions	6,960	497	464	76	357	8,354
Disposals	(74)	-	-	(32)	-	(106)
Disposal from sale of subsidiary	(14,852)	(1,523)	(513)	(126)	-	(17,014)
Balance on 31 December 2010	**3,898**	**1,884**	**2,623**	**-**	**492**	**8,897**
Depreciation and impairment						
Balance on 1 January 2009	981	661	766	26	11	2,445
Depreciation for the year	699	317	128	32	27	1,203
Disposals	-	(1)	(17)	(14)	-	(32)
Balance on 31 December 2009	**1,680**	**977**	**877**	**44**	**38**	**3,616**
Balance on 1 January 2010	1,680	977	877	44	38	3,616
Depreciation for the year	2,185	619	525	95	21	3,445
Disposals	(37)	-	-	(31)	-	(68)
Disposal from sale of subsidiary	(2,035)	(470)	(130)	(108)	-	(2,743)
Balance on 31 December 2010	**1,793**	**1,126**	**1,272**	**-**	**59**	**4,250**
Carrying amounts						
Balance on 1 January 2009	1,365	685	447	73	2	2,572
Balance on 31 December 2009	10,184	1,933	1,795	38	97	14,047
Balance on 31 December 2010	2,105	758	1,351	-	433	4,647

(Currency - In thousands of Turkish Lira ("TL"))

23. Intangible assets

	Software	Rights	Develop-ment costs	Total
Cost				
Balance on 1 January 2009	2,755	17,798	581	21,134
Additions	3,109	437	-	3,546
Internally developed	-	-	3,967	3,967
Balance on 31 December 2009	**5,864**	**18,235**	**4,548**	**28,647**
Balance on 1 January 2010	5,864	18,235	4,548	28,647
Additions	337	359	-	696
Internally developed	-	-	5,547	5,547
Disposal from sales of subsidiary	(78)	(18,594)	-	(18,672)
Balance on 31 December 2010	**6,123**	**-**	**10,095**	**16,218**
Amortisation				
Balance on 1 January 2009	1,934	1,397	-	3,331
Amortisation for the year	323	3,025	118	3,466
Balance on 31 December 2009	**2,257**	**4,422**	**118**	**6,797**
Balance on 1 January 2010	2,257	4,422	118	6,797
Amortisation for the year	492	3,019	597	4,108
Disposal from sales of subsidiary	(78)	(7,441)	-	(7,519)
Balance on 31 December 2010	**2,671**	**-**	**715**	**3,386**
Carrying amounts				
Balance on 1 January 2009	821	16,401	581	17,803
Balance on 31 December 2009	3,607	13,813	4,430	21,850
Balance on 31 December 2010	3,452	-	9,380	12,832

24. Other assets

	31 December 2010	31 December 2009
Receivables from clearing house	1,961	37
Transitory accounts	578	18
Prepaid expenses	377	275
Advances given	20	853
Deferred VAT	-	992
Prepaid taxes (note 16)	-	189
Others	295	177
	3,231	**2,541**

(Currency - In thousands of Turkish Lira ("TL"))

25. Trade and other payables

	31 December 2010	31 December 2009
Advances taken	-	1,731
Payables to suppliers	-	1,854
Notes payable	-	827
Deposits and guarantees taken	-	832
Other liabilities	-	95
	-	**5,339**

There is no balance of this account as of 31 December 2010 because of discontinued operations.

26. Obligations under repurchase agreements

	31 December 2010	31 December 2009
Obligations under repurchase agreements	1,442	85,792
	1,442	**85,792**

Investment securities are pledged under repurchase agreements as of 31 December 2010: none (31 December 2009 – TL 874 of trading debt securities and TL 94,719 of investment securities).

27. Debt securities issued

	31 December 2010	31 December 2009
Debt securities issued	278,263	51,395
	278,263	**51,395**

	31 December 2010	31 December 2009
Nominal of debt securities issued	286,479	54,556
Un accrued interest expense	(8,216)	(3,161)
	278,263	**51,395**

In 2010, the Bank issued debt securities with maturities between 1 January 2011 and 19 December 2011. The interest rate for debt securities is between 2.13%-10.50%.

28. Funds borrowed

	31 December 2010	31 December 2009
Domestic banks – TL	29,050	2,201
Domestic banks – Foreign currency	19,460	33,629
Foreign banks – TL	205,527	-
Foreign banks – Foreign currency	87,043	61,641
	341,080	**97,471**

(Currency - In thousands of Turkish Lira ("TL"))

29. Provisions

	31 December 2010	31 December 2009
Vacation pay liability	825	617
Employee termination benefits	90	72
Provision for non-cash loans	2,632	-
Other	-	24
	3,547	**713**

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days'pay (limited to a maximum of TL 2.52 and TL 2.37 on 31 December 2010 and 31 December 2009, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the financial statements as of 31 December 2010 and 31 December 2009, the Bank reflected a liability calculated using the statistical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the balance sheet date.

The principal actuarial assumptions used on the balance sheet dates are as follows:

	31 December 2010	31 December 2009
Discount rate	10%	11%
Expected rates of salary/limit increases	4.66%	5.92%
Estimated rate of obtaining right for employee termination indemnity	86%	86%

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

	31 December 2010	31 December 2009
Opening balance	72	76
Interest cost	20	14
Service cost	36	32
Payment during the year	(77)	(98)
Actuarial difference	46	48
Effect of sale of subsidiary	(7)	-
Balance at the end of the year	**90**	**72**

Vacation pay liability

The movement in provision for vacation pay liability is as follows:

	31 December 2010	31 December 2009
On 1 January	617	330
Increase during the year	283	350
Effect of sale of subsidiary	(75)	-
Paid	-	(63)
Balance at the end of the year	**825**	**617**

(Currency - In thousands of Turkish Lira ("TL"))

30. Other liabilities

	31 December 2010	31 December 2009
Customer accounts (*)	611,118	126,402
Taxes and due payable	6,292	1,523
Expense accrual	2,856	203
Transitory accounts	2,758	949
Cash collaterals received	1,991	26,940
Payables to clearing house	1,973	197
Unearned income	867	267
Payables to compulsory government funds	132	15
Other	1,109	1,857
	629,096	**158,353**

(*)The Bank is not entitled to collect deposits. Current accounts represent the current balances of loan customers. The maturity of this account is between 5 January 2011 and 25 August 2011, and interest rate range is between 3% and 7.39%.

31. Capital and reserves

	31 December 2010	31 December 2009
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	163,000	155,040

Share capital and share premium

As of 31 December 2010 and 31 December 2009, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2010		31 December 2009	
	Amount	%	Amount	%
Çalık Holding A.Ş.	160,688	98.58	152,728	98.51
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	1,224	0.75	1,224	0.78
Ahmet Çalık	544	0.33	544	0.35
Başak Enerji Elektrik Üretim San. ve Tic. A.Ş.	272	0.17	272	0.18
Irmak Enerji Elektrik Üretim Madencilik San. ve Tic. A.Ş.	272	0.17	272	0.18
Total paid-in-capital	**163,000**	**100.00**	**155,040**	**100.00**
Restatement effect per IAS 29	5,448		5,448	
Total share capital	**168,448**		**160,488**	

The paid in capital has been increased by TL 7,960 on 29 December 2010. The increase has been paid in cash by Çalık Holding A.Ş.

(Currency - In thousands of Turkish Lira ("TL"))

31. Capital and reserves *(continued)*

Reserves

Fair value reserve

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

Other reserves

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

32. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 98.58% of ordinary shares (31 December 2009 – 98.51%).

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is TL 6,969 (31 December 2009: TL 5,001).

Balances with related parties

31 December 2010	Related Party Balances	Total Balance	Rate %
Loans and advances to customers	349,150	727,112	48.02
Other liabilities (Customer accounts)	4,078	611,118	0.67
Debt securities issued	2,699	278,263	0.97

31 December 2009	Related Party Balances	Total Balance	Rate %
Loans and advances to customers	168,263	279,180	60.27
Other liabilities (Customer accounts)	6,239	126,402	4.94

In addition to balances with related parties above, the Bank has corporate bonds issued by Çalık Holding A.Ş. amounting to USD 14,000,000 (31 December 2009: 14,000,000 USD) of nominal value. The Bank has reclassified USD 12,000,000 (31 December 2009: 12,000,000 USD) of these bonds to available-for-sale investment securities and USD 2,000,000 (31 December 2009: 2,000,000 USD) to held-to-maturity investment securities. As of 31 December 2010, the carrying value of available-for-sale investment securities and held-to-maturity investment securities are TL 18,122 (31 December 2009: TL 15,857) and TL 2,806 (31 December 2009: TL 2,580), respectively.

(Currency - In thousands of Turkish Lira ("TL"))

32. Related parties *(continued)*

Off balance sheet balances with related parties

31 December 2010	Related Party Balances	Total Balance	Rate %
Non-cash loans	878,619	1,349,745	65.10

31 December 2009	Related Party Balances	Total Balance	Rate %
Non-cash loans	270,878	498,579	54.33
Swap transactions-buying	3,078	8,118	37.92
Swap transactions-selling	3,011	8,177	36.82

Transactions with related parties

	31 December 2010	31 December 2009
Interest income on loans	28,008	15,039
Fee and commission income	2,785	3,312
Rent expenses	2,840	2,300
Accommodation expenses	1,262	1,511

33. Commitments and contingencies

	31 December 2010	31 December 2009
Letters of guarantee	1,132,322	377,896
Letters of credit	180,464	52,423
Other guarantees	36,959	68,260
	1,349,745	**498,579**

(Currency - In thousands of Turkish Lira ("TL"))

34. Subsequent Events

Changes in required reserves ratio

1) Published in the Official Gazette No. 27788 dated 17.12.2010 and No. 2010/13 on the Amendment of the Communiqué on the Required Provisions Scale obligation dated 07/01/2011, to be effective with the Turkish lira Turkish lira liabilities required reserve ratio for deposits / participation were differentiated according to the maturity structure of funds.

These ratios are below:

a) Turkish lira required reserve ratio

TL	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	8
Deposits/participation accounts up to 1-month maturity	8
Deposits/participation accounts up to 3 months maturity	7
Deposits/participation accounts up to 6 months maturity	7
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	8

b) FC required reserve ratio is 11%

1) Published in the Official Gazette No. 27825 dated 24.01.2011 and 2011 / 2 Required Provisions of the Amendment to the Communiqué on the Scale to be valid obligation dated 04/02/2011, the Turkish lira demand required reserve ratios, and special notice deposits current accounts, term deposits up to 1 month / sharing accounts, time deposits up to 3 months / participate in special fund accounts and deposit pools / other liabilities to non-participation fund was set.

The ratios are below:

TL	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	12
Deposits/participation accounts up to 1-month maturity	10
Deposits/participation accounts up to 3 months maturity	9
Deposits/participation accounts up to 6 months maturity	7
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	9