Aktif Yatırım Bankası Anonim Şirketi

Financial Statements
As at and For the Year Ended
31 December 2011
with Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

24 February 2012

This report contains 2 pages of independent auditors' report and 47 pages of financial statements and notes to the financial statements.

Aktif Yatırım Bankası Anonim Şirketi

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Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 29
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
Internet www.kpmg.com.tr

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"), which comprise the statement of financial position as at 31 December 2011, the 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 qualified audit opinion.

Basis for Qualified Opinion

The accompanying financial statements as at 31 December 2011 include a general provision amounting to TL 30,000 provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions, and full amount of such provision has been charged to the current period statement of the comprehensive income as an expense.

KPMG

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

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

24 February 2012
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Financial Position
As of 31 December 2011

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

	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	*18*	274,776	275,099
Reserve deposits at Central Bank	*19*	89,578	50,736
Trading assets	*20*	1,081	197
Loans and advances to customers	*21*	1,677,786	727,112
Investment securities	*22*	474,464	405,398
Tangible assets	*24*	4,715	4,647
Intangible assets	*25*	15,667	12,832
Deferred tax assets	*17*	2,956	140
Other assets	*26*	11,787	3,231
Total assets		**2,552,810**	**1,479,392**
LIABILITIES			
Trading liabilities	*20*	69	212
Obligations under repurchase agreements	*27*	351,532	1,442
Debt securities issued	*28*	837,445	278,263
Funds borrowed	*29*	429,852	341,080
Provisions	*30*	45,571	3,547
Income taxes payables	*17*	1,500	3,953
Other liabilities	*31*	538,792	625,143
Total liabilities		**2,204,761**	**1,253,640**
EQUITY			
Share capital	*32*	235,448	168,448
Reserves	*32*	23,029	5,863
Retained earnings		89,572	51,441
Total equity		**348,049**	**225,752**
Total liabilities and equity		**2,552,810**	**1,479,392**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Comprehensive Income
For the Year Ended 31 December 2011
(Currency - In thousands of Turkish Lira ("TL"))

	Note	2011	2010
Interest income	*9*	182,220	70,050
Interest expense	*9*	(92,568)	(32,110)
Net interest income		**89,652**	**37,940**
Fees and commission income	*10*	112,756	30,485
Fees and commission expense	*10*	(9,583)	(2,151)
Net fee and commission income		**103,173**	**28,334**
Net trading income	*11*	11,334	6,861
Other income	*12*	2,654	96
Operating income		**206,813**	**73,231**
Net impairment loss on financial assets	*13,21*	(4,560)	(6,416)
Personnel expenses	*14*	(50,084)	(26,876)
Depreciation and amortisation		(3,370)	(2,339)
Administrative expenses	*15*	(18,101)	(15,243)
Other operating expense	*16*	(41,108)	(3,920)
Total operating expenses		**(117,223)**	**(54,794)**
Share of profit of equity accounted investee	*23*	-	30,250
Profit before income tax		**89,590**	**48,687**
Income tax expense	*17*	(24,044)	(3,808)
Net profit for the year from continuing operations		**65,546**	**44,879**
Discontinued operations			
Loss from discontinued operations (net of income tax)	*8*	**-**	**(1,364)**
Net profit for the year		**65,546**	**43,515**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(12,811)	410
Income tax on other comprehensive income	*17*	2,562	(82)
Other comprehensive income for the year, net of tax		**(10,249)**	**328**
Total comprehensive income for the year		**55,297**	**43,843**
Profit attributable to:			
Equity holders of the Bank		65,546	44,970
Non-controlling interest		-	(1,455)
Profit for the year		**65,546**	**43,515**
Total comprehensive income attributable to:			
Equity holders of the Bank		55,297	45,298
Non-controlling interest		-	(1,455)
Total comprehensive income for the year		**55,297**	**43,843**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Changes in Equity
For the Year Ended 31 December 2011
(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 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	*32*	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**
At 1 January 2011		**163,000**	**5,448**	**3,189**	**2,674**	**51,441**	**225,752**	**-**	**225,752**
Total comprehensive income for the year									
Profit for the year		-	-	-	-	65,546	65,546	-	65,546
- Other comprehensive income									
Net change in fair value of available-for-sale financial assets		-	-	(10,249)	-	-	(10,249)	-	(10,249)
Total other comprehensive income		**-**	**-**	**(10,249)**	**-**	**-**	**(10,249)**	**-**	**(10,249)**
Total comprehensive income for the year		**-**	**-**	**(7,060)**	**-**	**65,546**	**55,297**	**-**	**55,297**
Transactions with owners, recorded directly in equity									
-Contributions by and distributions to owners									
Capital increase in cash	*32*	67,000	-	-	-	-	67,000	-	67,000
Total transactions with owners, recorded directly in equity		**67,000**					**67,000**	**-**	**67,000**
Transfers									
Transfer to legal reserves		-	-	-	1,755	(1,755)	-	-	-
Transfer to other restricted reserves					25,660	(25,660)			
At 31 December 2011		**230,000**	**5,448**	**(7,060)**	**30,089**	**89,572**	**348,049**	**-**	**348,049**

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

Statement of Cash Flows
For the Year Ended 31 December 2011

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

	Note	2011	2010
Cash flows from operating activities			
Net profit for the year		65,546	43,515
Adjustments for:			
Depreciation and amortisation	*24, 25*	3,370	2,339
Retirement pay provision expense		50	102
Unused vacation provision expense		287	283
Impairment on financial assets	*21, 30*	3,415	3,784
Impairment of non-cash loans	*30*	1,140	2,632
Net interest income		(89,652)	(37,940)
Share of profit of equity investee	*23*	-	(7,914)
Provision for possible losses	*30*	30,000	-
Income from sales of associate	*23*	-	(22,336)
Gain on sale of discontinued operations, net of tax	*8*	-	(4,434)
Unrealized foreign exchange (gain)/loss		(37,110)	13,156
Unrealized gain on derivative transactions		(418)	211
Gain on sales of tangible assets		(5)	-
Other expense accrual		(2,883)	1,955
Income tax	*17*	24,044	3,808
		(2,216)	**(839)**
Change in reserve deposit at Central Bank		(38,842)	(42,333)
Change in trading assets		(172)	874
Change in loans and advances to customers		(899,920)	(417,856)
Change in other assets		(11,622)	(1,675)
Change in obligations under repurchase agreements		349,450	(84,258)
Proceeds from borrowings		73,580	238,135
Change in other liabilities and provisions		(74,365)	459,191
		(604,107)	**151,239**
Interest received		163,130	61,377
Interest paid		(84,110)	(30,806)
Retirement pay provision and unused vacation paid	*30*	(28)	(77)
Income tax paid	*17*	(22,795)	(940)
Net cash (used in)/ provided from operating activities		**(547,910)**	**180,793**
Cash flows from investing activities			
Purchase of investment securities		(414,115)	(412,021)
Sale of investment securities		349,966	124,642
Purchase of tangible assets		(1,581)	(2,134)
Disposal of discontinued operations, net of cash disposed of	*8*	-	(1,247)
Proceeds from the sale of tangible assets		28	1
Purchase of intangible assets		(1,614)	(337)
Development expenditure	*25*	(3,101)	(5,547)
Disposal of minority		-	756
Proceeds from sale of associate	*23*	-	50,208
Net cash used in investing activities		**(70,417)**	**(245,679)**
Cash flows from financing activities			
Proceeds from debt securities issued		3,633,100	1,312,795
Repayment of debt securities issued		(3,082,060)	(1,082,385)
Proceeds from share capital increase	*32*	67,000	7,960
Net cash provided from financing activities		**618,040**	**238,370**
Net increase /(decrease) in cash and cash equivalents		**(287)**	**173,484**
Effect of exchange rate fluctuations on cash		(36)	688
Cash and cash equivalents on 1 January	*18*	275,099	100,927
Cash and cash equivalents on 31 December	*18*	**274,776**	**275,099**

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

Notes to the financial statements

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 and consumer 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 seven branches.

On 20 December 2010, the Bank has sold its shares 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 has 98% of ownership in E-Tik Elektronik Transfer Kuponları Limited Şirketi (“E-Tik”).

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

The Bank employs 373 people as at 31 December 2011 (31 December 2010: 316).

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, Turkish Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The financial statements had been prepared from statutory financial statements of the Bank 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 financial statements as at 31 December 2011 are authorised for issue by the management on 24 February 2012. 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.

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

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 at 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 reporting 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 at 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 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at 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 2010	2.0491	1.5460
31 December 2011	2.4592	1.9065

3.3 Interest income / expense

Interest income and expense are recognised in the profit or loss 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 profit or loss include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.4 Fees and commission

Fees and 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.

3.5 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)*

3.6 Dividends

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

3.7 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.

3.8 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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 recognised in respect of 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.

3.9 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances to customers, held-to-maturity investment securities, funds borrowed, customer accounts and debt securities issued 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)*

3.9 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)*

3.9 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.

3.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances 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.

3.11 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 statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.12 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. Significant accounting policies *(continued)4*

3.13 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.

3.14 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.

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

3. Significant accounting policies *(continued)*

3.14 Tangible assets *(continued)*

Depreciation

Depreciation is recognised in the profit or loss 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 2011 and 2010 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.

3.15 Intangible assets

(i) 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.

(ii) 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.

3. Significant accounting policies *(continued)*

3.15 Intangible assets *(continued)*

Amortisation is recognised in profit or loss 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.

3.16 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.

3.17 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 profit or loss. 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.

3.18 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. Significant accounting policies *(continued)*

3.19 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.

3.20 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.

3.21 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. Significant accounting policies *(continued)*

3.22 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 2011, 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 the follows:

- IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 *Financial Instruments* could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.

The Bank does not plan to adopt these standards 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)		Loans and advances to customers		Investment debt securities (held-to-maturity portfolio)	
	Note	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Carrying amount		**20,126**	**182,870**	**1,677,786**	**727,112**	**3,838**	**2,806**
Individually impaired							
- Non-performing financial assets		-	-	8,953	5,538	-	-
Gross amount		**-**	**-**	**8,953**	**5,538**	**-**	**-**
Allowance for impairment		-	-	(8,953)	(5,538)	-	-
Carrying amount	*17, 20, 21*	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired							
- Low risk		20,126	182,870	1,279,095	363,758	-	-
- Medium risk		-	-	352,268	258,189	3,838	2,806
- High risk		-	-	18,255	6,120	-	-
- Non graded		-	-	28,168	99,045	-	-
Carrying amount		**20,126**	**182,870**	**1,677,786**	**727,112**	**3,838**	**2,806**
Carrying amount (amortised cost)	*17, 20, 21*	**20,126**	**182,870**	**1,677,786**	**727,112**	**3,838**	**2,806**

Impaired loans and advances to customers and investment securities

Impaired loans and advances to customers 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 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 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 or investment debt security balance, and any related allowances for impairment losses, when Bank determines that the loan 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.

	Loans and advances to customers		Investment debt securities – HTM	
	Gross	**Net**	**Gross**	**Net**
31 December 2011				
Individually impaired	8,953	-	-	-
31 December 2010				
Individually impaired	5,538	-	-	-

(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 2011	31 December 2010
Against neither past due nor impaired		
- Cash blockage	23,551	9,919
- Pledge on assets	86,426	46,377
- Cheques and notes	1,069	20,094
Against past due but impaired		
- Cash blockage	268	5,325
Against individually impaired		
- Pledge on assets	1,072	1,308
Total	**112,386**	**83,023**

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

Non-cash loans	31 December 2011	31 December 2010
Cash blockage	22,696	20,695
Pledge on assets	23,591	4,557
Cheques and notes	623	-
	46,910	**25,252**

In addition to collaterals stated above, the Bank holds customer sureties amounting against its cash loans and advances to customers and against its non-cash loans.

Concentration risk by location

The Bank's total risk for loans and advances to customers and investment debt securities (held-to-maturity portfolio) is mainly 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 471,707 (31 December 2010: TL 402,789). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	31 December 2011	31 December 2010
Government bonds, treasury bills and investment funds			
- Rated BB- (trading portfolio)	*19*	610	-
- Rated BB- (available-for-sale portfolio)	*21*	456,918	376,579
Corporate bonds			
- Rated B (available-for-sale portfolio)	*21*	13,708	26,013
Derivative assets:			
- Bank and financial institution counterparties	*19*	471	197
Total		**471,707**	**402,789**

(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 2011				31 December 2010			
Sector	**Cash Loans**	**%**	**Non-Cash Loans**	**%**	**Cash Loans**	**%**	**Non-Cash Loans**	**%**
Construction	105,830	6	307,932	26	174,134	24	300,206	22
Financial institution	43,558	3	98,795	8	82,550	11	3,912	1
General Services	684,741	41	77,500	7	151,294	21	69,660	5
Media	-	-	48,841	4	3,807	1	45,657	3
Automotive	-	-	31,689	3	4,653	1	81,173	6
Tekstile	62,743	4	32,588	3	93,864	13	46,277	3
IT industry	-	-	-	-	16,844	2	169	-
Electricity industry	9,906	1	356,253	31	2,648	-	430,477	32
Iron and steel industry	-	-	16,263	1	2,751	-	39,479	3
Public	3,034	-	10,800	1	3,324	-	13,513	1
Machinery and equipment	11,900	1	3,380	1	12,842	2	1,469	-
Energy industry	32,131	2	100,895	9	7,733	1	133,978	10
Trade	45,901	3	51,437	4	63,546	9	68,665	5
Other (*)	678,042	39	27,555	2	107,122	15	115,110	9
	1,677,786	**100**	**1,163,928**	**100**	**727,112**	**100**	**1,349,745**	**100**

(*) Includes consumer loans, unclassified loans and leasing receivables.

(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 and foreign 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 2011	**31 December 2010**
At the end of the year	125%	182%
Average for the year	155%	155%
Maximum for the year	234%	228%
Minimum for the year	104%	111%

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 2011									
Non-derivative liabilities									
Obligations under repurchase agr.	*26*	351,532	351,883	-	351,883	-	-	-	-
Debt securities issued	*27*	837,445	848,318	-	391,887	404,493	51,938	-	-
Funds borrowed	*28*	429,852	432,428	-	165,532	238,128	28,768	-	-
Customer accounts(*)	*30*	507,461	507,542	485,915	21,627	-	-	-	-
Derivative financial instruments									
Outflow	*19*	(471)	(87,981)	-	(87,981)	-	-	-	-
Inflow	*19*	69	87,706	-	87,706	-	-	-	-
		2,125,888	**2,139,896**	**485,915**	**930,654**	**642,621**	**80,706**	**-**	**-**

(*) 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 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	*19*	(197)	(86,355)	-	(85,843)	(512)	-	-	-
Inflow	*19*	212	86,368	-	85,845	523	-	-	-
		1,232,283	**1,253,599**	**560,075**	**265,108**	**252,911**	**175,505**	**-**	**-**

(*) 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 2011 and 2010 and during the period is as follows:

	At the end of the year	Average	Maximum	Minimum
31 December 2011				
Foreign currency risk	181	216	388	104
Interest rate risk	5,394	7,070	8,362	5,324
Equity risk	82	81	82	80
	5,657	**7,367**	**8,832**	**5,508**
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**

(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 these limits 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	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2011									
Cash and cash equivalents	*17*	274,776	-	274,776	-	-	-	-	-
Reserve deposits at Central Bank	*18*	89,578	-	89,578	-	-	-	-	-
Trading Assets	*19*	1,081	-	-	1,081	-	-	-	-
Loans and advances to customers	*20*	1,677,786	-	-	933,019	41,275	93,792	543,640	66,060
Investment securities – AFS	*21*	470,626	-	-	23,916	201,943	189,362	25,820	29,585
Investment securities – HTM	*21*	3,838	-	-	3,838	-	-	-	-
		2,517,685	**-**	**364,354**	961,854	**243,218**	**283,154**	**569,460**	**95,645**
Obligations under repurchase agr.	*26*	351,532	-	-	351,532	-	-	-	-
Debt securities issued	*27*	837,445	-	-	787,144	34,241	16,060	-	-
Funds borrowed	*28*	429,852	-	-	401,489	28,363	-	-	-
		1,618,829	**-**	**-**	**1,540,165**	**62,604**	**16,060**	**-**	**-**
Interest rate gap		**898,856**	**-**	**364,354**	**(578,311)**	**180,614**	**267,094**	**569,460**	**95,645**

	Note	Carrying amount	Unallocated	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	*17*	275,099	-	242,917	32,182	-	-	-	-
Reserve deposits at Central Bank	*18*	50,736	-	-	50,736	-	-	-	-
Trading Assets	*19*	197	-	-	197	-	-	-	-
Loans and advances to customers	*20*	727,112	-	-	234,992	216,822	98,046	175,663	1,589
Investment securities – AFS	*21*	402,592	-	-	1,270	478	25,016	340,701	35,127
Investment securities – HTM	*21*	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**

(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 statement of financial position position) is as follows:

	Profit or loss		Equity	
At 31 December 2011	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Trading securities	(1)	1	(1)	1
Investment securities – available-for-sale	-	-	(3,719)	3,907
	(1)	**1**	**(3,720)**	**3,908**

	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**

Summary of average interest rates

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

	31 December 2011			31 December 2010		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	-	-	-	0.75	-	-
Deposits at Central Bank	-	-	-	-	-	-
Trading assets	-	-	7.87	-	-	-
Loans and advances to customers	6.73	6.43	16.17	6.72	6.39	9.81
Investment securities – AFS	5.13	9.97	8.05	7.28	9.55	7.88
Investment securities – HTM	-	8.50	-	-	8.50	-
Liabilities						
Obligations under repurchase agreements	-	5.50	7.39	-	-	11.69
Financial lease liabilities	-	-	-	-	-	-
Debt securities issued	5.31	4.00	11.66	-	-	8.06
Funds borrowed	2.58	2.62	8.80	3.18	2.57	7.78

(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 2011					
Cash and cash equivalents	115,720	23,563	-	2,573	141,856
Reserve deposits at Central Bank	89,578	-	-	-	89,578
Loans and advances to customers	280,084	126,592	-	-	406,676
Investment securities – AFS	12,188	31,105	-	-	43,293
Investment securities – HTM	-	3,838	-	-	3,838
Other assets	31	24	-	-	55
Funds borrowed	(157,027)	(121,422)	-	-	(278,449)
Obligations under repurchase	-	(19,206)	-	-	(19,206)
Debt securities issued	(12,133)	(383)	-	-	(12,516)
Other liabilities	(318,738)	(58,257)	(34,172)	(1,622)	(412,789)
Net statement of financial position	**9,703**	**(14,146)**	**(34,172)**	**951**	**(37,664)**
Forward exchange contracts	(10,970)	14,651	34,206	210	38,097
Net total position	**(1,267)**	**505**	**34**	**1,161**	**433**

	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
Trade and other receivables	-	-	-	-	-
Investment securities – AFS	18,837	32,941	-	-	51,778
Investment securities – HTM	-	2,806	-	-	2,806
Other assets	3,807	18	-	-	3,825
Trade and other payables	-	-	-	-	-
Funds borrowed	(21,823)	(84,680)	-	-	(106,503)
Finance lease liabilities	-	-	-	-	-
Other liabilities	(441,147)	(72,200)	(24,613)	(262)	(538,222)
Net statement of financial position	**(28,851)**	**21,863**	**3**	**478**	**(6,507)**
Forward exchange contracts	26,695	(22,195)	265	(153)	4,612
Net total position	**(2,156)**	**(332)**	**268**	**325**	**(1,895)**

(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 2011 and 2010 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 2011	Equity	Profit or loss
Euro	(127)	(97)
USD	51	112
Other currencies	120	120
	44	**135**

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

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2011 and 2010 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 at 31 December 2011, the Bank's capital adequacy ratio is 13.94% (31 December 2010 – 12.65%).

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 3.9.

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 profit or loss, 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 3.9. 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 3.9.

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 3.9.

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 2011	Note	Level 1	Level 2	Level 3	Total
Trading assets	*19*	610	471	-	1,081
Investment securities – AFS portfolio	*21*	470,626	-	-	470,626
		471,236	**471**	**-**	**471,707**
Trading liabilities	*19*	-	(69)	-	(69)
		471,236	**402**	**-**	**471,638**

At 31 December 2010		Level 1	Level 2	Level 3	Total
Trading assets	*19*	-	197	-	197
Investment securities – AFS portfolio	*21*	394,700	7,892	-	402,592
		394,700	**8,089**	**-**	**402,789**
Trading liabilities	*19*	-	(212)	-	(212)
		394,700	**7,877**	**-**	**402,577**

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 3.11.

(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 except for the loans and advances to customers and investment securities-HTM.

Valuation technique used for determining the fair values of the loans and advances to customers and investment securities-HTM is net present value model. Assumptions and inputs used in net present value model include benchmark interest rates, credit spreads or other premia used in estimating discount rates. The objective of valuation technique is to arrive at a fair value determination that reflects the prices of the loans and advances to customers and investment securities-HTM at the reporting date, that would have been determined by market participants acting at arm's length.

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 2011								
Cash and cash equivalents	*17*	-	274,776	-	-	-	274,776	274,776
Reserve deposits at Central Bank	*18*	-	89,578	-	-	-	89,578	89,578
Trading assets	*19*	1,081	-	-	-	-	1,081	1,081
Loans and advances to customers	*20*	-	1,677,786	-	-	-	1,677,786	1,533,286
Investment securities – AFS	*21*	-	-	470,626		-	470,626	470,626
Investment securities – HTM	*21*	-	-	-	3,838	-	3,838	3,917
		1,081	**2,042,140**	**470,626**	**3,838**	**-**	**2,517,685**	**2,373,264**
Trading liabilities	*19*	69	-	-	-	-	69	69
Obligations under rep. agr.	*26*	-	-	-	-	351,532	351,532	351,532
Debt securities issued	*27*	-	-	-	-	837,445	837,445	837,445
Funds borrowed	*28*	-	-	-	-	429,852	429,852	429,852
		69	**-**	**-**	**-**	**1,618,829**	**1,618,898**	**1,618,898**

	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	*17*	-	275,099	-	-	-	275,099	275,099
Reserve deposits at Central Bank	*18*	-	50,736	-	-	-	50,736	50,736
Trading assets	*19*	197	-	-	-	-	197	197
Loans and advances to customers	*20*	-	727,112	-	-	-	727,112	726,335
Investment securities – AFS	*21*	-	-	402,592		-	402,592	402,592
Investment securities – HTM	*21*	-	-	-	2,806	-	2,806	3,020
		197	**1,052,947**	**402,592**	**2,806**	**-**	**1,458,542**	**1,457,979**
Trading liabilities	*19*	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**

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

7. Segment Reporting

The Bank is operating mainly in retail banking, corporate banking and investment banking.

31 December 2011	Retail Banking	Corporate Banking	Investment Banking	Other	Total
Operating Income	**55,351**	**199,445**	**54,168**	**-**	**308,964**
Undistributed costs[1]	(11,739)	-	-	(207,635)	(219,374)
Income from subsidiaries	-	-	-	-	-
Profit before tax	43,612	199,445	54,168	(207,635)	89,590
Tax provision	-	-	-	(24,044)	(24,044)
Profit after tax	43,612	199,445	54,168	(231,679)	65,546
Net profit	**43,612**	**199,445**	**54,168**	**(231,679)**	**65,546**
Total assets	**556,685**	**1,121,101**	**839,899**	**35,125**	**2,552,810**
Total Liabilities	**352,367**	**992,539**	**781,453**	**426,451**	**2,552,810**
Other segment Items					
Capital investment[2]	-	-	-	-	73,296
Depreciation[2]	-	-	-	-	3,370
Impairment losses [2]	-	-	-	-	-

(1) Costs that can not be allocated according to consistent base
(2) Other segment costs could not be distributed (

31 December 2010	Retail Banking	Corporate Banking	Investment Banking	Other	Total
Operating Income	**4,305**	**108,828**	**24,609**	**-**	**137,742**
Undistributed costs[1]	-	-	-	(89,055)	(89,055)
Profit before tax	4,305	108,828	24,609	(89,055)	48,687
Loss from discontinued operations (net of income tax)	-	-	-	(1,364)	(1,364)
Tax provision	-	-	-	(3,808)	(3,808)
Profit after tax	4,305	108,828	24,609	(94,227)	43,515
Net profit	**4,305**	**108,828**	**24,609**	**(94,227)**	**43,515**
Total assets	**97,499**	**629,613**	**731,430**	**20,850**	**1,479,392**
Total Liabilities	113,972	775,774	342,734	246,912	1,479,392
Other segment Items					
Capital investment[2]	-	-	-	-	15,730
Depreciation[2]	-	-	-	-	2,338
Impairment losses [2]	-	-	-	-	-

(1) Costs that can not be allocated according to consistent base
(2) Other segment costs could not be distributed

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

8. 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 at 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**
Interest expense	(3,043)
Net interest expense	**(3,043)**
Net trading income	1,342
Income from fare collection services	14,492
Cost of fare collection services	(4,880)
Operating income	**7,911**
Personnel expenses	(8,122)
Depreciation and amortisation	(5,214)
Administrative expenses	(1,265)
Other operating expense	(470)
Total operating expense	**(15,071)**
Loss before income tax	**(7,160)**
Income tax (Note 16)	1,362
Results from operating activities, net of tax	**(5,798)**
Gain on sale of discontinued operations	4,533
Income tax on gain on sale of subsidiary (Note 16)	(99)
Loss from discontinued operations	**(1,364)**

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

8. Discontinued operations *(continued)*

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

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

9. Net Interest Income

	2011	2010
Interest income		
Loans and advances to customers	139,288	52,294
Investment securities	37,275	15,571
Cash and cash equivalents	5,517	1,835
Other	140	350
Total interest income	**182,220**	**70,050**
Interest expense		
Debt issued	51,966	14,482
Funds borrowed	28,371	10,497
Money market transactions	10,556	1,858
Other	1,675	5,273
Total interest expense	**92,568**	**32,110**
Net interest income	**89,652**	**37,940**

10. Net fee and commission income

	2011	2010
Fee and commission income		
Remittance fee	50,450	15,738
Financial guarantee contracts issued	23,456	9,611
Intermediary commissions	16,701	2,692
Insurance fee	8,445	1,193
Other	13,704	1,251
Total fee and commission income	**112,756**	**30,485**
Fee and commission expense		
Other	9,583	2,151
Total fee and commission expense	**9,583**	**2,151**
Net fee and commission income	**103,173**	**28,334**

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

11. Net trading income

	2011	2010
Foreign exchange gain	10,259	7,216
Fixed income	692	4,235
Gain/(Loss) from derivative financial instruments	383	(4,590)
Total	**11,334**	**6,861**

12. Other income

	2011	2010
Gain on sale of assets	895	-
Other	1,759	96
Total	**2,654**	**96**

13. Net impairment on financial assets

	2011	2010
Specific provision for loans	3,415	3,784
Provision for non-cash loans	1,140	2,632
Other	5	-
Total	**4,560**	**6,416**

14. Personnel expenses

	2011	2010
Wages and salaries	33,363	23,342
Bonus provision	11,600	-
Compulsory social security obligations	2,695	1,752
Employee termination indemnity and vacation pay liability(net)	411	385
Other	2,015	1,397
Total	**50,084**	**26,876**

15. Administrative expenses

	2011	2010
Rent expenses	3,893	3,351
Taxes and dues other than on income	3,672	1,646
Communication expenses	2,200	1,054
Expenses on vehicles	2,192	1,373
Publicity expenses	1,652	3,447
Travelling expenses	1,136	619
Software maintenance expenses	1,060	1,047
Representation expenses	931	707
Consultancy expenses	722	721
Reuters expenses	467	359
Subscription expenses	113	144
Maintenance expenses	63	64
Others	-	711
Total	**18,101**	**15,243**

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

16. Other operating expense

	2011	2010
Provision for possible losses	30,000	-
Other	11,108	3,920
Total	**41,108**	**3,920**

17. 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 at 31 December 2011 and 2010, the current tax liability is as follows:

	31 December 2011	31 December 2010
Income tax liability	24,295	4,926
Prepaid taxes	(22,795)	(973)
Income taxes payable	**1,500**	**3,953**

For the year ended 31 December 2011 and 2010, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2011	2010
Current tax expense from continuing operations	(26,291)	(4,126)
Deferred tax from continuing operations	2,247	318
- Origination and reversal of temporary differences	*2,247*	*318*
Income tax from discontinued operations	-	1,362
Income tax on gain on sale of discontinued operations	-	(99)
Total income tax	**(24,044)**	**(2,545)**

Income tax recognised directly in equity

	31 December 2011	31 December 2010
Available-for-sale investment securities		
- Deferred tax	569	294
- Current tax	1,993	(376)
	2,562	**(82)**

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

17. Taxation *(continued)*

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 2011 and 2010 is as follows:

	2011	Rate %	2010	Rate %
Profit for the year	65,546		43,515	
Total Income tax expense	(24,044)		(2,545)	
Profit before income tax	**89,590**		**46,060**	
Income tax using the domestic corporation tax rate 20%	(17,918)	(20.00)	(9,212)	(20.00)
Non-deductible expenses	(7,010)	(7.82)	(43)	(0.09)
Tax exempt income	884	0.99	5,132	11.14
Other	-	-	1,578	3.43
Total income tax in the profit or loss	**(24,044)**	**(26.83)**	**(2,545)**	**(5.52)**

Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the statement of financial position and recognised in profit or loss and in equity are as follows:

	31 December 2011			31 December 2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale investment securities	549	-	549	177	(99)	78
Held-to-maturity investment securities	33	-	33	24	-	24
Derivative financial instruments	14	(94)	(80)	42	(39)	3
Retirement pay liability	22	-	22	18	-	18
Unused vacation liability	223	-	223	165	-	165
Machinery, equipment and intangible assets	-	(252)	(252)	-	(306)	(306)
Bonus provision	2,320		2,320	-	-	-
Other	205	(64)	141	178	(20)	158
Deferred tax assets	**3,366**	**(410)**	**2,956**	**604**	**(464)**	**140**

Recognised in the statement of financial position as follows:

	31 December 2011	31 December 2010
Deferred tax assets	2,956	140
	2,956	**140**

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

17. Taxation *(continued)*

Deferred tax *(continued)*

Movements in temporary differences during the year

31 December 2011	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	78	(98)	569	549
Held-to-maturity investment securities	24	9	-	33
Derivative financial instruments	3	(84)	-	(81)
Retirement pay liability	18	4	-	22
Unused vacation liability	165	58	-	223
Machinery, equipment and intangible assets	(306)	54	-	(252)
Bonus provision	-	2,320	-	2,320
Other	158	(16)	-	142
	140	**2,247**	**569**	**2,956**

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)
Other	72	156	(70)	-	158
	(1,940)	**318**	**1,468**	**294**	**140**

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

18. Cash and cash equivalents

	31 December 2011	31 December 2010
Cash and balances with Central Bank	254,650	92,229
- *Cash on hand*	*3,017*	*1,974*
- *Money in transit*	-	*28,687*
- *Unrestricted balances with Central Bank*	251,633	61,568
Placements with other banks	20,126	182,870
Total	**274,776**	**275,099**

19. Reserve deposits at Central Bank

	31 December 2011	31 December 2010
Foreign currency	89,578	50,736
	89,578	**50,736**

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 5-11% and 6-11%, respectively according to their maturity terms as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (31 December 2010 – 6% for TL and 11% for USD or EUR).

As at 31 December 2011 and 2010, TL reserve deposits and foreign currency reserve deposits are non-interest earning.

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

20. Trading assets and liabilities

Trading assets

	31 December 2011	31 December 2010
Trading securities		
- Government bonds and treasury bills	93	-
- Investment funds	517	-
Derivative assets		
- Foreign exchange	471	197
-Swap contracts	*414*	*120*
-Forward contracts	*57*	*77*
	1,081	**197**

Trading liabilities

	31 December 2011	31 December 2010
Derivative liabilities		
- Foreign exchange	69	212
-Swap contracts	*69*	*117*
-Forward contracts	-	*95*
	69	**212**

As at 31 December 2011 and 2010, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2011, no trading debt securities pledged under repurchase agreements (31 December 2010 – none).

As at 31 December 2011 and 2010, all trading debt securities have fixed interest rates.

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

	31 December 2011	31 December 2010
Forward foreign exchange contracts – buy(*)	13,520	51,312
Forward foreign exchange contracts – sell(*)	13,480	51,311
Swap foreign exchange contracts – buy	81,869	34,835
Swap foreign exchange contracts – sell	81,604	34,859

(*) Included spot and forward transactions.

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

21. Loans and advances to customers

As at 31 December 2011 and 2010, all loans and advances to customers are at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2011			**31 December 2010**		
Corporate customers:						
- Finance leases	31	-	31	3,807	-	3,807
- Other lending	1,686,708	(8,953)	1,677,755	728,843	(5,538)	723,305
Corporate loans	*1,127,009*	*(7,458)*	*1,119,551*	*629,614*	*(5,527)*	*624,087*
Consumer loans	*558,180*	*(1,495)*	*556,685*	*97,510*	*(11)*	*97,499*
Factoring receivables	*1,519*	-	*1,519*	*1,719*	-	*1,719*
	1,686,739	**(8,953)**	**1,677,786**	**732,650**	**(5,538)**	**727,112**

As at 31 December 2011 TL 609,700 (31 December 2010: TL 177,252) of loan and advances to customers are expected to be recovered more than 12 months after the reporting date.

Allowance for impairment

	31 December 2011	31 December 2010
Balance on 1 January	5,538	1,754
Impairment loss for the year	3,415	3,784
- Charge for the year	3,653	3,826
- Recoveries	(238)	(42)
Balance at the end of the year	**8,953**	**5,538**

Finance lease receivables

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

	31 December 2011	31 December 2010
Gross investment in finance leases, receivable:		
- Less than one year	36	2,245
- Between one and five years	-	1,816
	36	**4,061**
Unearned future income on finance leases	(5)	(254)
Net investment in finance leases	**31**	**3,807**
The net investment in finance leases comprises:		
- Less than one year	31	2,053
- Between one and five years	-	1,754
	31	**3,807**

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

22. Investment securities

			31 December 2011	31 December 2010
	Interest rate %	Latest maturity	Carrying amount	Carrying amount
Held-to-maturity investment securities				
- Corporate bonds	8.50	2012	3,838	2,806
Available-for-sale investment securities				
- Government bonds	7.08-11.67	2030	456,918	376,579
- Corporate bonds	8.50-10.00	2013	13,708	26,013
			474,464	**405,398**

On 7 August 2008, 13 August 2008 and 21 June 2010, the Bank purchased with a nominal value of USD 9,000,000 of corporate bonds of Çalık Holding A.Ş. which is the main shareholder of the Bank. The Bank classified USD 7,000,000 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% of interest.

As at 31 December 2011, TL 19,665 and TL 356,660 of investment securities is given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2010: TL 19,671 and TL 1,472, respectively).

23. Investment in associate

As at 31 December 2011, the Bank has no 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
Beginning net assets	19,958
Share of profit of equity accounted investee	7,914
Gain on sale of ÇFH	22,336
Consideration received	(50,208)
Investment in associate	**-**

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

24. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor Vehicles	Other fixed assets	Total
Cost						
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**
Balance on 1 January 2011	3,898	1,884	2,623	-	492	8,897
Additions	942	115	397	32	95	1,581
Disposals	(31)	-	-		(2)	(33)
Balance on 31 December 2011	**4,809**	**1,999**	**3,020**	**32**	**585**	**10,445**
Depreciation and impairment						
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**
Balance on 1 January 2011	1,793	1,126	1,272	-	59	4,250
Depreciation for the year	743	274	394	1	78	1,490
Disposals	(10)	-	-	-	-	(10)
Balance on 31 December 2011	**2,526**	**1,400**	**1,666**	**1**	**137**	**5,730**
Carrying amounts						
Balance on 1 January 2010	10,184	1,933	1,795	38	97	14,047
Balance on 31 December 2010	2,105	758	1,351	-	433	4,647
Balance on 31 December 2011	2,283	599	1,354	31	448	4,715

There is no capitalised borrowing costs related to the acquisition of the tangible assets during the year (2010: nil).

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

25. Intangible assets

	Software	Rights	Develop-ment costs	Total
Cost				
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**
Balance on 1 January 2011	6,123	-	10,095	16,218
Additions	1,614	-	-	1,614
Internally developed	-	-	3,101	3,101
Balance on 31 December 2011	**7,737**	**-**	**13,196**	**20,933**
Amortisation				
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**
Balance on 1 January 2011	2,671	-	715	3,386
Amortisation for the year	462	-	1,418	1,880
Balance on 31 December 2011	**3,133**	**-**	**2,133**	**5,266**
Carrying amounts				
Balance on 1 January 2010	3,607	13,813	4,430	21,850
Balance on 31 December 2010	3,452	-	9,380	12,832
Balance on 31 December 2011	4,604	-	11,063	15,667

There is no capitalised borrowing costs related to the internally development of software during the year (2010: nil).

26. Other assets

	31 December 2011	31 December 2010
Guarantees given (*)	9,350	-
Transitory accounts	1,185	578
Prepaid expenses	958	377
Receivables from clearing house	155	1,961
Advances given	22	20
Others	117	295
	11,787	**3,231**

(*) This balance consist of the guarantees given for the Bank's asset backed securitization fund named Aktif Yatırım Bankası A.Ş (1) No'lu Varlık Finansman Fonu.

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

27. Obligations under repurchase agreements

	31 December 2011	31 December 2010
Obligations under repurchase agreements-TL	332,326	1,442
Obligations under repurchase agreements-FC	19,206	-
	351,532	**1,442**

Investment securities are pledged under repurchase agreements as at 31 December 2011: TL 356,660 of investment securities (31 December 2010: TL 1,472 of investment securities).

28. Debt securities issued

As at 31 December 2011 and 2010, all debt securities issued are at amortised cost.

	31 December 2011	31 December 2010
Debt securities issued-TL	824,929	278,263
Debt securities issued-FC	12,516	-
	837,445	**278,263**

	31 December 2011	31 December 2010
Nominal of debt securities issued	885,248	286,479
Unaccrued interest expense	(47,803)	(8,216)
	837,445	**278,263**

In 2011, the Bank issued TL debt securities with maturities between 6 January 2012 and 6 December 2012. The interest rate for TL debt securities is between 9%-13.85%. In 2011, the Bank issued foreign currency debt securities which will be matured on 2 July 2012. The interest rate for foreign currency debt securities is between 3.5%-5.90%.

29. Funds borrowed

	31 December 2011	31 December 2010
Domestic banks – TL	47,088	29,050
Domestic banks – Foreign currency	9,824	19,460
Foreign banks – TL	104,315	205,527
Foreign banks – Foreign currency	268,625	87,043
	429,852	**341,080**

As at 31 December 2011 none of funds borrowed is expected to be settled more than 12 months after the reporting date (31 December 2010: none).

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

30. Provisions

	31 December 2011	31 December 2010
Provision for possible losses (*)	30,000	-
Bonus provision	11,600	-
Provision for non-cash loans	2,747	2,632
Vacation pay liability	1,112	825
Employee termination benefits	112	90
Total	**45,571**	**3,547**

(*) As at 31 December 2011 a general provision amounting to TL 30,000 is provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions and full amount of such provision has been charged to the current period statement of the comprehensive income as an expense.

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 2.73 and TL 2.52 on 31 December 2011 and 2010, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the financial statements as at 31 December 2011 and 2010, 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 reporting date.

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

	31 December 2011	31 December 2010
Discount rate	4.66%	4.66%
Expected rates of salary/limit increases	10%	10%
Estimated rate of obtaining right for employee termination indemnity	86%	86%

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

	31 December 2011	31 December 2010
Opening balance	90	72
Interest cost	11	20
Service cost	52	36
Payment during the year	(28)	(77)
Actuarial difference	(13)	46
Effect of sale of subsidiary	-	(7)
Balance at the end of the year	**112**	**90**

Vacation pay liability

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

	31 December 2011	31 December 2010
On 1 January	825	617
Increase/paid (net) during the year	287	283
Effect of sale of subsidiary	-	(75)
Balance at the end of the year	**1,112**	**825**

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

31. Other liabilities

	31 December 2011	31 December 2010
Customer accounts (*)	507,461	611,483
Guarantees given	9,350	-
Unearned income	7,416	867
Transitory accounts	5,087	2,758
Taxes and due payable	4,412	2,339
Expense accrual	2,154	2,856
Payables to compulsory government funds	937	132
Cash collaterals received	603	1,991
Payables to clearing house	225	1,973
Other	1,147	744
	538,792	**625,143**

(*)The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers. The maturity of this account is between 9 and 26 January 2012 for TL and 26 January 2012 for USD, and interest rate range for TL is between 8.00% and 8.50% and interest rate for USD is 4.5%.

32. Capital and reserves

	31 December 2011	31 December 2010
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	230.000	163.000

As at 31 December 2011, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

Share capital and share premium

As at 31 December 2011 and 2010, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2011		31 December 2010	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	227,688	98.99	160,688	98.58
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	1,224	0.53	1,224	0.75
Ahmet Çalık	544	0.24	544	0.33
Başak Enerji Elektrik Üretim San. ve Tic. A.Ş.	272	0.12	272	0.17
Irmak Enerji Elektrik Üretim Madencilik San. ve Tic. A.Ş.	272	0.12	272	0.17
Total paid-in-capital	**230,000**	**100.00**	**163,000**	**100.00**
Restatement effect per IAS 29	5,448		5,448	
Total share capital	**235,448**		**168,448**	

The paid in capital has been increased by TL 18,500 and 48,500 on 24 November 2011 and 30 December 2011, respectively. The increase has been paid in cash by Çalık Holding A.Ş.

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

32. 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 and other restricted 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. In the accompanying financial statements, the total of the legal reserves are amounting to TL 4,429 (31 December 2010: TL 2,674).

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the other restricted reserves in equity with the intention to be utilised in a share capital increase within five years from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax. As at 31 December 2011, the Bank has transferred a gain from sale of investment amounting to TL 25,660 to the other restricted reserves in equity.

33. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 98.99% of ordinary shares (31 December 2010 – 98.58%).

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 6,960 (31 December 2010: TL 6,969).

Balances with related parties

31 December 2011	Related Party Balances	Total Balance	Rate %
Loans and advances to customers	813,794	1,677,786	48.50
Other liabilities (Customer accounts)	8,507	507,461	1.68
Debt securities issued	28,721	837,445	3.43

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

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

33. Related parties *(continued)*

Balances with related parties *(continued)*

In addition to balances with related parties above, the Bank has corporate bonds issued by Çalık Holding A.Ş. amounting to USD 9,000,000 (31 December 2010: 14,000,000 USD) of nominal value. The Bank has reclassified USD 7,000,000 (31 December 2010: 12,000,000 USD) of these bonds to available-for-sale investment securities and USD 2,000,000 (31 December 2010: 2,000,000 USD) to held-to-maturity investment securities. As at 31 December 2011, the carrying value of available-for-sale investment securities and held-to-maturity investment securities are TL 13,708 (31 December 2010: TL 18,122) and TL 3,838 (31 December 2010: TL 2,806), respectively.

Off statement of financial position balances with related parties

31 December 2011	Related Party Balances	Total Balance	Rate %
Non-cash loans	750,699	1,163,928	64.50

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

Transactions with related parties

	31 December 2011	31 December 2010
Interest income on loans	43,691	28,008
Fee and commission income	9,572	2,785
Rent expenses	3,124	2,840
Accommodation expenses	1,437	1,262

34. Commitments and contingencies

	2011	2010
Letters of guarantee	1,038,928	1,132,322
Letters of credit	97,284	180,464
Acceptance credits	5,099	6,266
Other guarantees	22,617	30,693
Total non-cash loans	**1,163,928**	**1,349,745**
Check limits	2,057	1,224
Other commitments	848,983	286,785
Total	**851,040**	**288,009**

35. Subsequent Events

According to the board of directors' meeting dated on 26 October 2012; it has been decided to establish an asset backed securitization fund named Aktif Yatırım Bankası A.Ş (2) No'lu Emek Varlık Finansman Fonu and it has been issued on 27 January 2012.

According to the board of directors' meeting dated 19 January 2012 and numbered 1406, it has been decided to establish a company with TL 50 capital, for the purpose of to turn into private equity company in the future. TL 49.9 capital will be paid by Aktif Yatırım Bankası A.Ş.