KPMG

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As of and For the Six-Month Period Ended
30 June 2010
with Independent Auditors' Review Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

20 August 2010

This report contains 1 pages of independent auditors' review report and 50 pages of consolidated financial statements and notes to the consolidated financial statements.

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Yapı Kredi Plaza C Blok Kat 17
Büyükdere Caddesi
Levent 34330 İstanbul

Telephone +90 (212) 317 74 00
Fax +90 (212) 317 73 00
Internet www.kpmg.com

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying consolidated statement of financial position of Aktif Yatırım Bankası A.Ş. (the "Bank") and its subsidiaries (together the "Group") as at 30 June 2010, the consolidated statements of comprehensive income, consolidated changes in equity and consolidated cash flows for the six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information (the consolidated interim financial statements). The management is responsible for the preparation and fair presentation of these interim consolidated financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements, do not give a true and fair view of the financial position of Aktif Yatırın Bankası A.Ş and its subsidiaries as at 30 June 2010 and of its financial performance and its cash flows for the six month period then ended in accordance with IAS 34 "Interim Financial Reporting".

Emphasis of matter

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

As described in Note 33 to the financial statements, the Bank has given the significant portion of cash and non-cash loans to its related parties (Çalık Group Companies) as of 30 June 2010.

20 August 2010
Istanbul, Turkey

KPMG Akis Bağımsız Denetim ve SMMM AŞ

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position

As of 30 June 2010

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

	Note	30 June 2010	31 December 2009
ASSETS			
Cash and cash equivalents	*15*	55,061	100,927
Reserve deposits at Central Bank	*16*	15,156	8,395
Trading assets	*17*	1,002	874
Trade and other receivables	*18*	1,083	1,366
Inventories	*19*	3,022	3,295
Loans and advances to customers	*20*	418,906	279,180
Investment securities	*21*	127,404	124,624
Investment in associate	*22*	24,705	19,958
Property and equipment	*23*	17,769	14,047
Intangible assets	*24*	22,777	21,850
Other assets	*25*	5,505	2,541
Total assets		**692,390**	**577,057**
LIABILITIES			
Trading liabilities	*17*	207	52
Trade and other payables	*26*	4,345	5,339
Obligations under repurchase agreements	*27*	67,931	85,792
Financial lease liabilities		4,677	2,809
Debt securities issued	*28*	113,508	51,395
Funds borrowed	*29*	183,127	97,471
Provisions	*30*	939	713
Deferred tax liabilities	*14*	1,191	1,940
Other liabilities	*31*	137,122	158,353
Total liabilities		**513,047**	**403,864**
EQUITY			
Share capital	*32*	160,488	160,488
Reserves	*32*	3,655	5,070
Retained earnings		15,019	6,936
Total equity attributable to equity holders of the Bank		**179,162**	**172,494**
Non-controlling interest		181	699
Total equity		**179,343**	**173,193**
Total liabilities and equity		**692,390**	**577,057**
Commitments and contingencies	*34*		

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

Consolidated Statement of Comprehensive Income
For the Period Ended 30 June 2010
(Currency - In thousands of Turkish Lira ("TL"))

	Note	30 June 2010	30 June 2009
Interest income	8	27,238	18,382
Interest expense	8	(11,496)	(2,937)
Net interest income		**15,742**	**15,445**
Fees and commission income	9	6,818	3,093
Fees and commission expense	9	(719)	(337)
Net fee and commission income		**6,099**	**2,756**
Net trading income	10	5,411	2,511
Income from fare collection services	11	6,678	4,931
Cost of fare collection services	11	(4,276)	(2,327)
Operating income		**29,654**	**23,316**
Net reversal/(impairment) on financial assets	20, 30	27	(295)
Personnel expenses	12	(15,980)	(11,912)
Administrative expenses	13	(9,865)	(7,883)
Other operating expense		(216)	(153)
Total operating expenses		**(26,034)**	**(20,243)**
Share of profit of equity accounted investee	22	4,747	1,672
Profit before income tax		**8,367**	**4,745**
Income tax	14	(337)	(1,039)
Net profit for the period		**8,030**	**3,706**
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		(2,045)	(1,935)
Income tax on other comprehensive income		165	606
Other comprehensive income for the period, net of income tax		**(1,880)**	**(1,329)**
Total comprehensive income for the period		**6,150**	**2,377**
Profit attributable to:			
Equity holders of the Bank		8,548	4,465
Non-controlling interest		(518)	(759)
Profit for the period		**8,030**	**3,706**
Total comprehensive income attributable to:			
Equity holders of the Bank		6,668	3,136
Non-controlling interest		(518)	(759)
Total comprehensive income for the period		**6,150**	**2,377**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity
For the Period Ended 30 June 2010

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

	Note	Share Capital	Adjustment to Share Capital	Fair Value Reserve	Other Reserves	Retained Earnings	Total	Non-controlling Interest	Total Equity
At 1 January 2009		114,000	24,663	142	2,130	23,772	164,707	(266)	164,441
Total comprehensive income for the period									
Profit for the period		-	-	-	-	4,465	4,465	(759)	3,706
- Other comprehensive income									
Net change in fair value of available-for-sale financial assets	32	-	-	(1,329)	-	-	(1,329)	-	(1,329)
Total other comprehensive income		-	-	(1,329)	-	-	(1,329)	-	(1,329)
Total comprehensive income for the period		-	-	(1,329)	-	4,465	3,136	(759)	2,377
Transfer to legal reserves		-	-	-	79	(79)	-	-	-
At 30 June 2009		114,000	24,663	(1,187)	2,209	28,158	167,843	(1,025)	166,818
At 1 January 2010		155,040	5,448	2,861	2,209	6,936	172,494	699	173,193
Total comprehensive income for the period									
Profit for the period		-	-	-	-	8,548	8,548	(518)	8,030
- Other comprehensive income									
Net change in fair value of available-for-sale financial assets	32	-	-	(1,880)	-	-	(1,880)	-	(1,880)
Total other comprehensive income		-	-	(1,880)	-	-	(1,880)	-	(1,880)
Total comprehensive income for the period		-	-	(1,880)	-	8,548	6,668	(518)	6,150
Transfer to legal reserves		-	-	-	465	(465)	-	-	-
At 30 June 2010		155,040	5,448	981	2,674	15,019	179,162	181	179,343

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Cash Flows

For the Period Ended 30 June 2010

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

	Note	30 June 2010	30 June 2009
Cash flows from operating activities			
Net profit for the period		8,030	3,706
Adjustments for:			
Depreciation and amortisation	*23, 24*	3,365	2,137
Retirement pay provision expense		56	109
Unused vacation provision expense		316	188
Net (reversal)/impairment on financial assets	*20, 30*	(27)	295
Net interest income		(15,742)	(15,445)
Share of profit of equity investee	*22*	(4,747)	(1,672)
Unrealized gain/loss		1,350	(6,067)
Income tax	*14*	(337)	1,039
		(7,736)	**(15,710)**
Change in reserve deposit at Central Bank		(6,662)	(361)
Change in trading assets		(114)	(540)
Change in trade and other receivables		283	(296)
Change in inventories		273	(831)
Change in loans and advances to customers		(138,829)	(116,283)
Change in other assets		(2,652)	(591)
Change in trade and other payables		(994)	1,199
Change in obligations under repurchase agreements		(17,794)	25,479
Change in other liabilities and provisions		(21,480)	31,615
		(195,705)	**(76,319)**
Interest received		23,835	16,918
Interest paid		(10,232)	(2,844)
Retirement pay provision and unused vacation paid		(149)	(44)
Income tax paid		(354)	(168)
Net cash provided from / (used in) operating activities		**(182,605)**	**(62,457)**
Cash flows from investing activities			
Purchase of investment securities		(110,296)	(37,868)
Sales of investment securities		107,475	41,989
Purchase of property and equipment	*23*	(5,118)	(2,700)
Proceeds from the sale of property and equipment		35	6
Purchase of intangible assets	*24*	(1,029)	(326)
Development expenditure	*24*	(1,902)	(2,528)
Net cash used in investing activities		**(10,835)**	**(1,427)**
Cash flows from financing activities			
Change in financial lease liabilities		1,868	(50)
Proceeds from debt securities issued		411,747	-
Proceeds from funds borrowed		84,014	677,794
Repayment of borrowings		(350,052)	(643,205)
Net cash provided from financing activities		**147,577**	**34,539**
Net decrease in cash and cash equivalents		(45,863)	(29,345)
Cash and cash equivalents on 1 January	*15*	100,918	54,499
Cash and cash equivalents on 30 June	*15*	**55,055**	**25,154**

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

Notes to the consolidated 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 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 five branches in Istanbul.

On 8 May 2008, the Bank has established Çalık Yönetim Sistemleri A.Ş. ("ÇYS") with a 75% of ownership. 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.

On 30 May 2008, ÇYS acquired 100% of E-Kent Elektronik Ücret Toplama A.Ş. ("E-Kent") which was established in 2002. E-Kent is a provider of high-technology solutions and services for modern urban management. E-Kent sells, installs and operates electronic fare collection solutions and electronic payment systems, and provides consulting services for planning and efficiency of public transport services. E-Kent is an electronic fare collection operating company, and currently operates services in six provinces of Turkey. E-Kent has tailored its systems to meet the individual customer requirements of various railway networks, municipalities, public transport companies, car parks, cultural parks, zoos and museums located in major cities in Turkey. E-Kent is a member of the International Association of Public Transport (UITP). E-Kent has 98% of ownership in E-Tik Elektronik Transfer Kup. Ltd. Şti. ("E-Tik").

The Bank and its consolidated subsidiaries are referred as the "Group" hereafter.

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

1. Corporate information *(continued)*

The Bank has cooperation with Çalık Holding A.Ş. in their project of investing a foreign oriented bank in Çalık Finansal Hizmetler A.Ş. The share of the Bank in this company is 24%.

The main establishment purpose of Çalık Finansal Hizmetler A.Ş. is the transactions related with purchase of Bank Kombatare Tregtare in Albania.

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 June 2010 and 31 December 2009 are as follows:

	Place of incorporation	Effective shareholding and voting rights (%)	
		30 June 2010	31 December 2009
ÇYS	Turkey	75.0	75.0
E-Kent	Turkey	75.0	75.0
E-Tik	Turkey	73.5	73.5
Çalık Finansal Hizmetler A.Ş.	Turkey	24.0	24.0

ÇYS established with TL 3,000 of registered capital. The share capital is registered to the Bank and GAP İnşaat Yatırım ve Dış Ticaret A.Ş. ("GAP İnşaat") with shareholding percentage of 75% and 25%, respectively. As at 31 December 2009, ÇYS increased its share capital from 3,000 TL to 11,500 TL. The share capital increase was paid by the Bank and GAP İnşaat respectively their shareholding percentage.

The Bank employs 267 people as of 30 June 2010 (31 December 2009: 236), the Group employs 579 people as of 30 June 2010 (31 December 2009: 545).

2. Basis of preparation

2.1 Statement of compliance

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

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

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

The accompanying consolidated financial statements as of 30 June 2010 are authorised for issue by the management on 20 August 2010. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The consolidated 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. Basis of preparation *(continued)*

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Group'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 consolidated 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 period 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 consolidated 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 consolidated financial statements, and have been applied consistently by Group entities.

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

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

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

3. Significant accounting policies *(continued)*

3.2 Basis of consolidation

(i) Subsidiaries

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

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

(ii) Associate (equity accounted investee)

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

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

(iii) Transactions eliminated on consolidation

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

3.3 Foreign currency transactions

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

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

	EUR / TL (full)	USD / TL (full)
31 December 2009	2.1603	1.5057
30 June 2010	1.9217	1.5747

3. Significant accounting policies *(continued)*

3.4 Interest income / expense

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

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

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

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

3.5 Fees and commission

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

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

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

3.6 Net trading income

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

3.7 Income from fare collection service

(i) Goods sold

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

(ii) Commissions

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

(iii) Services

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

3.8 Dividends

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

3. Significant accounting policies *(continued)*

3.9 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the ease. 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.

3.10 Income tax expense

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

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

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

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

3.11 Financial assets and liabilities

Recognition

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

Derecognition

The Group 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 Group is recognised as a separate asset or liability.

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

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group 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 Group'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 statement of financial position date, the Group 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 Group's loan portfolio does not consist of many transactions, the Group 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 Group 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 Group 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 Group, including:
    - adverse changes in the payment status of borrowers; or
    - national or local economic conditions that correlate with defaults on the assets in the Group.

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

3. Significant accounting policies *(continued)*

3.11 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

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

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

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

3.12 Cash and cash equivalents

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

When the Group 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 Group's consolidated financial statements.

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

3.13 Trading assets and liabilities

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

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

3.14 Trade and other receivables

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

3.15 Inventories

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

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

3. Significant accounting policies *(continued)*

3.16 Loans and advances to customers

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

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

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

3.17 Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group 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 Group 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 Group 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.

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

3. Significant accounting policies *(continued)*

3.18 Property and equipment

Recognition and measurement

Items of property and equipment are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses. Property equipment 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 property 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 Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

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

The estimated useful lives for as at 30 June 2010 and 31 December 2009 are as follows:

▪ machinery and equipment	5 years
▪ furniture and fixtures	5 years
▪ motor vehicles	5 years
▪ other fixed assets	4-50 years

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

3. Significant accounting policies *(continued)*

3.19 Intangible assets

(i) Goodwill

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

Acquisition

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

Subsequent measurement

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

(ii) Service agreements

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

(iii) Software

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

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

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

3. Significant accounting policies *(continued)*

3.20 Leased assets – lessee

Leases in terms of which the Group 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 Group's balance sheet.

3.21 Impairment of non-financial assets

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

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

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

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

3.22 Funds borrowed and debt securities issued

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

3.23 Provisions

A provision is recognised if, as a result of a past event, the Group 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 Group 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 Group 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 Group recognises any impairment loss on the assets associated with that contract.

3. Significant accounting policies *(continued)*

3.24 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group 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 Group 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 Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.25 Trade and other payables

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

3.26 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 30 June 2010 have not been applied in preparing these financial statements and are not expected to have any impact on the financial statements of the Bank, with the exception of:

IFRS 9 – Financial Instruments which was published on 12 November 2009 as a part of a wider project that aims to bring new regulations to replace IAS 39 – Financial Instruments: Recognition and Measurement.

The objective of IFRS 9, being the first phase of the project, is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of amounts, timing and uncertainty of the entity's future cash flows. With IFRS 9 an entity shall classify financial assets as subsequently measured at either amortised cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

An entity shall apply IFRS 9 for annually periods beginning on or after 1 January 2013. An earlier application is permitted. If an entity adopts this IFRS in its financial statements for a period beginning before 1 January 2012, then prior periods do not need to be restated.

4. Financial risk management

Introduction and overview

The Group 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

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

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

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

Credit risk

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

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

Management of credit risk

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

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

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

4. Financial risk management *(continued)*

Credit risk *(continued)*

Exposure to credit risk

		Cash at banks (excluding cash at Central Bank)		Trade and other receivables		Loans and advances to customers		Investment debt securities (held-to-maturity portfolio)	
	Note	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
Carrying amount		36,730	91,047	1,083	1,366	418,906	279,180	2,802	2,580
Individually impaired									
- Non-performing financial assets		-	-	-	-	1,727	1,754	-	-
Gross amount		-	-	-	-	1,727	**1,754**	-	-
Allowance for impairment		-	-	-	-	(1,727)	(1,754)	-	-
Carrying amount	*15, 18, 20*	-	-	-	-	-	-	-	-
Neither past due nor impaired									
- Low risk		36, 730	91,047	-	-	295,801	209,885	-	-
- Medium risk		-	-	-	-	118,105	68,789	2,802	2,580
- High risk		-	-	-	-	-	-	-	-
- Non graded		-	-	1,083	1,366	5,000	506	-	-
Carrying amount		36, 730	91,047	1,083	1,366	418,906	279,180	2,802	2,580
Carrying amount (amortised cost)	*15, 18, 20,21*	36, 730	91,047	1,083	1,366	418,906	279,180	2,802	2,580

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

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

Allowance for impairment

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

Write-off policy

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

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

	Trade and other receivables		Loans and advances to customers		Investment debt securities – HTM	
	Gross	Net	Gross	Net	Gross	Net
30 June 2010						
Individually impaired	-	-	1,727	-	-	-
31 December 2009						
Individually impaired	-	-	1,754	-	-	-

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

4. Financial risk management *(continued)*

Credit risk *(continued)*

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

Cash loans	30 June 2010	31 December 2009
Against non-performing loans	-	-
Against neither past due nor impaired		
- Cash blockage	25,794	31,579
- Pledge on property	24,808	9,172
- Cheques and notes	3,026	1,436
- Assignment of claims	5,971	-
- Counter guarantee	1,661	-
Total	**61,260**	**42,187**

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

Non-cash loans	30 June 2010	31 December 2009
Cash blockage	23,108	20,474
Pledge on property	3,275	5,251
Assignment of claims	4,062	-
Cheques and notes	45	5,500
	30,490	**31,225**

In addition to collaterals stated above, the Bank holds customer sureties amounting to TL 82,916 (31 December 2009 – TL 47,077) against its cash loans and advances to customers and TL 178,447 (31 December 2009 – TL 102,819) against its non-cash loans.

Concentration risk by location

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

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

The Group held trading assets, investment securities (available-for-sale portfolio) including derivative assets of TL 125,604 (31 December 2009: TL 122,918). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	30 June 2010	31 December 2009
Government bonds, treasury bills and investment funds			
- Rated BB- (trading portfolio)	*17*	989	874
- Rated BB- (available-for-sale portfolio)	*21*	106,695	106,187
Corporate bonds			
- Rated B (available-for-sale portfolio)	*21*	17,907	15,857
Derivative assets:			
- Bank and financial institution counterparties	*17*	13	-
Fair value and carrying amount		**125,604**	**122,918**

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

4. Financial risk management *(continued)*

Credit risk *(continued)*

Concentration risk by sector

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

	30 June 2010				31 December 2009			
Sector	Cash Loans		Non-Cash Loans		Cash Loans		Non-Cash Loans	
Construction	130,691	31%	130,813	18%	63,585	23%	94,026	19%
Financial institution	72,005	17%	8,629	1%	47,735	17%	30,404	6%
General Services	54,468	13%	50,365	7%	32,452	12%	30,542	6%
Media	45,000	11%	42,461	6%	40,433	14%	14,011	3%
Outomotive	22,366	5%	99,909	14%	21,940	8%	67,868	14%
Tekstile	14,102	3%	57,493	8%	24,511	9%	43,464	9%
IT industry	13,452	3%	556	-	15,616	6%	531	-
Electricity industry	12,177	3%	7,647	1%	5,456	2%	5,987	1%
Iron and steel industry	10,087	2%	23,480	3%	5,549	2%	14,687	3%
Public	8,368	2%	10,800	2%	7,225	3%	11,289	2%
Machinery and equipment	4,787	1%	693	-	1,466	1%	1,014	-
Energy industry	3,632	1%	203,585	28%	1,241	0%	108,547	22%
Trade	3,236	1%	19,588	3%	2,861	1%	40,476	8%
Other	24,535	7%	67,109	9%	9,110	2%	35,733	7%
	418,906		**723,128**		**279,180**		**498,579**	

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

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

4. Financial risk management *(continued)*

Liquidity risk

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

Management of liquidity risk

The Group'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 Group's reputation.

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

Exposure to liquidity risk

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

	30 June 2010	31 December 2009
At the end of the period/year	160%	158%
Average for the period/year	137%	194%
Maximum for the period/year	178%	434%
Minimum for the period/year	111%	110%

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
30 June 2010									
Non-derivative liabilities									
Trade and other payables	26	4,345	4,345	1,854	34	986	827	-	644
Obligations under repurchase agr.	27	67,931	67,931	-	67,931	-	-	-	-
Financial lease liabilities		4,677	5,350	-	62	124	1,440	3,724	-
Debt securities issued	28	113,508	114,917	-	46,088	58,814	10,015	-	-
Funds borrowed	29	183,127	184,285	-	79,627	76,107	28,338	213	-
Current accounts(*)	31	118,565	121,283	19,738	30,040	17,578	53,927	-	-
Derivative financial instruments									
Outflow	17	(13)	(25,930)	-	(22,852)	-	(3,078)	-	-
Inflow	17	207	26,086	-	22,936	-	3,150	-	-
		492,347	498,267	21,592	223,866	153,609	94,619	3,937	644

(*) Included in other liabilities.

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

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of financial liabilities *(continued)*

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2009									
Non-derivative liabilities									
Trade and other payables	26	5,339	5,339	1,731	95	1,854	827	-	832
Obligations under repurchase agr.	27	85,792	85,792	-	85,792	-	-	-	-
Financial lease liabilities		2,809	3,127	-	11	16	580	2,520	-
Debt securities issued	28	51,395	54,556	-	20,191	6,323	28,042	-	-
Funds borrowed	29	97,471	98,863	-	12,795	33,112	52,324	632	-
Current accounts(*)	31	126,402	126,935	34,907	36,395	39,829	15,804	-	-
Derivative financial instruments									
Outflow	17	-	(8,118)	-	(5,107)	-	(3,011)	-	-
Inflow	17	52	8,177	-	5,099	-	3,078	-	-
		369,260	374,671	36,638	155,271	81,134	97,644	3,152	832

(*) Included in other liabilities.

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

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Group'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 Group's portfolios on 30 June 2010 and 31 December 2009 and during the period is as follows:

	At the end of the period	Average	Maximum	Minimum
30 June 2010				
Foreign currency risk	925	3,198	4,113	925
Interest rate risk	37,463	36,898	38,138	35,363
Equity risk	1,100	1,100	1,100	1,100
	39,488	41,196	43,351	37,388
31 December 2009				
Foreign currency risk	1,850	1,825	5,425	288
Interest rate risk	35,325	19,238	35,325	14,225
	37,175	21,063	40,750	14,513

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

4. Financial risk management *(continued)*

Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

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

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
30 June 2010									
Cash and cash equivalents	*15*	55,061	-	4,884	50,177	-	-	-	-
Reserve deposits at Central Bank	*16*	15,156	15,156	-	-	-	-	-	-
Trade and other receivables	*18*	1,083	-	-	1,083	-	-	-	-
Loans and advances to customers	*20*	418,906	-	-	360,777	36,640	1,907	19,582	-
Investment securities – AFS	*21*	124,602	-	-	777	-	1,169	122,656	-
Investment securities – HTM	*21*	2,802	-	-	130	-	119	2,553	-
		617,610	15,156	4,884	412,944	36,640	3,195	144,791	-
Trade and other payables	*26*	4,345	-	1,854	1,020	-	827	-	644
Obligations under repurchase agr.	*27*	67,931	-	-	67,931	-	-	-	-
Financial lease liabilities		4,677	-	-	135	138	1,087	3,317	-
Debt securities issued	*28*	113,508	-	-	103,827	9,681	-	-	-
Funds borrowed	*29*	183,127	-	-	155,337	9,823	17,794	173	-
		373,588	-	1,854	328,250	19,642	19,708	3,490	644
Interest rate gap		244,022	15,156	3,030	84,694	16,998	(16,513)	141,301	(644)

	Note	Carrying amount	Unallo-cated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2009									
Cash and cash equivalents	*15*	100,927	-	3,271	97,656	-	-	-	-
Reserve deposits at Central Bank	*16*	8,395	8,395	-	-	-	-	-	-
Trade and other receivables	*18*	1,366	-	-	1,366	-	-	-	-
Loans and advances to customers	*20*	279,180	-	-	243,342	6,972	17,802	11,064	-
Investment securities – AFS	*21*	122,044	-	-	-	-	-	122,044	-
Investment securities – HTM	*21*	2,580	-	-	-	-	-	2,580	-
		514,492	8,395	3,271	342,364	6,972	17,802	135,688	-
Trade and other payables	*26*	5,339	-	1,731	1,949	-	827	-	832
Obligations under repurchase agr.	*27*	85,792	-	-	85,792	-	-	-	-
Financial lease liabilities		2,809	-	-	26	7	546	2,230	-
Debt securities issued	*28*	51,395	-	-	25,202	-	26,193	-	-
Funds borrowed	*29*	97,471	-	-	45,729	23,928	27,319	495	-
		242,806	-	1,731	158,698	23,935	54,885	2,725	832
Interest rate gap		271,686	8,395	1,540	183,666	(16,963)	(37,083)	132,963	(832)

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

4. Financial risk management *(continued)*

Market risk *(continued)*

Interest rate sensitivity

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

	Profit or loss		Equity	
At 30 June 2010	**100 bp parallel increase**	**100 bp parallel decrease**	**100 bp parallel increase**	**100 bp parallel decrease**
Trading securities	(7)	7	(7)	7
Investment securities – available-for-sale	-	-	(1,503)	1,536
	(7)	7	(1,510)	1,543

	Profit or loss		Equity	
At 30 June 2009	**100 bp parallel increase**	**100 bp parallel decrease**	**100 bp parallel increase**	**100 bp parallel decrease**
Trading securities	-	-	-	-
Investment securities – available-for-sale	-	-	(594)	609
	-	-	(594)	609

Summary of average interest rates

As of 30 June 2010 and 31 December 2009, the summary of average interest rates for different assets and liabilities are as follows:

	30 June 2010			31 December 2009		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	0.20	0.22	6.79	0.15	0.17	6.61
Deposits at Central Bank	-	-	5.20	-	-	5.20
Trading assets	-	-	8.65	-	-	9.45
Loans and advances to customers	7.89	7.51	13.77	9.11	9.05	15.65
Investment securities – AFS	-	8.50	8.84	-	8.50	9.63
Investment securities – HTM	-	8.50	-	-	8.50	-
Liabilities						
Obligations under repurchase agreements	-	-	6.42	-	-	7.25
Financial lease liabilities	8.82	-	19.00	3.16	-	18.30
Debt securities issued	-	-	10.11	-	-	9.87
Funds borrowed	1.57	2.21	9.00	5.74	4.87	-

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

4. Financial risk management *(continued)*

Operational risk

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

Foreign currency risk

30 June 2010	Euro	USD	JPY	Other	Total
Cash and cash equivalents	14,309	6,437	52	437	21,235
Reserve deposits at Central Bank	-	15,156	-	-	15,156
Loans and advances to customers	46,554	134,744	-	-	181,298
Trade and other receivables	2	-	-	-	2
Investment securities – AFS	-	17,907	-	-	17,907
Investment securities – HTM	-	2,802	-	-	2,802
Other assets	5,505	30	-	-	5,535
Trade and other payables	(662)	-	-	-	(662)
Funds borrowed	(61,533)	(80,082)	-	-	(141,615)
Finance lease liabilities	(4,667)	-	-	-	(4,667)
Other liabilities	(36,188)	(70,137)	(11)	(189)	(106,525)
Net balance sheet position	**(36,680)**	**26,857**	**41**	**248**	**(9,534)**
Forward exchange contracts	19,217	(26,086)	-	-	(6,869)
Net position	**(17,463)**	**771**	**41**	**248**	**(16,403)**

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

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

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

The following major exchange rates applied during the period/year ended 30 June 2010 and 31 December 2009:

TL	Average rate 2010	Average rate 2009	Balance sheet date 30 June 2010	Balance sheet date 31 December 2009
USD	1.5699	1.5499	1.5747	1.5057
Euro	1.9185	2.1521	1.9217	2.1603

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 30 June 2010 and 31 December 2009 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

30 June 2010	Equity	Profit or loss
Euro	(1,746)	(1,746)
USD	77	(4)
Other currencies	29	29
	(1,721)	**(1,640)**

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

A 10 percent strengthening of the TL against the foreign currencies on 30 June 2010 and 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Capital management

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

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

As of 30 June 2010, the Bank's capital adequacy ratio is 16.42% (31 December 2009 – 21.29%).

5. Use of estimates and judgements

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

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

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.11.

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

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.11. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Group's accounting policies

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

Impairment of investment in equity securities

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

For an investment in an equity security, a significant or prolonged decline it its fair value below its cost is objective evidence of impairment: In this respect, the Group 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 Group's accounting policy on fair value measurements is discussed in accounting policy 3.11.

The Group 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 Group'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 Group 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 Group 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 30 June 2010		Level 1	Level 2	Level 3	Total
Trading assets	*17*	989	13	-	1,002
Investment securities – AFS portfolio	*21*	124,602	-	-	124,602
		125,591	**13**	-	**125,604**
Trading liabilities	*17*	-	(207)	-	(207)
		-	**(207)**	-	**(207)**

At 31 December 2009		Level 1	Level 2	Level 3	Total
Trading assets	*17*	874	-	-	874
Investment securities – AFS portfolio	*21*	122,044	-	-	122,044
		122,918	-	-	**122,918**
Trading liabilities	*17*	-	(52)	-	(52)
		-	**(52)**	-	**(52)**

Financial asset and liability classification

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

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

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

6. Financial assets and liabilities

Accounting classification and fair values

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

The table below sets out the Group'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
30 June 2010								
Cash and cash equivalents	*15*	-	55,061	-	-	-	55,061	55,061
Reserve deposits at Central Bank	*16*	-	15,156	-	-	-	15,156	15,156
Trading assets	*17*	1,002	-	-	-	-	1,002	1,002
Trade and other receivables	*18*	-	1,083	-	-	-	1,083	1,083
Loans and advances to customers	*20*	-	418,906	-	-	-	418,906	418,906
Investment securities – AFS	*21*	-	-	124,602	-	-	124,602	124,602
Investment securities – HTM	*21*	-	-	-	2,802	-	2,802	2,981
		1,002	490,206	124,602	2,802	-	618,612	618,791
Trading liabilities	*17*	207	-	-	-	-	207	207
Trade and other payables	*26*	-	-	-	-	4,345	4,345	4,345
Obligations under rep. agr.	*27*	-	-	-	-	67,931	67,931	67,931
Financial lease liabilities		-	-	-	-	4,677	4,677	4,677
Debt securities issued	*28*	-	-	-	-	113,508	113,508	113,508
Funds borrowed	*29*	-	-	-	-	183,127	183,127	183,127
		207	-	-	-	373,588	373,795	373,795

	Note	Trading	Loans and receivables	Available -for-sale	Held-to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2009								
Cash and cash equivalents	*15*	-	100,927	-	-	-	100,927	100,927
Reserve deposits at Central Bank	*16*	-	8,395	-	-	-	8,395	8,395
Trading assets	*17*	874	-	-	-	-	874	874
Trade and other receivables	*18*	-	1,366	-	-	-	1,366	1,366
Loans and advances to customers	*20*	-	279,180	-	-	-	279,180	279,180
Investment securities – AFS	*21*	-	-	122,044	-	-	122,044	122,044
Investment securities – HTM	*21*	-	-	-	2,580	-	2,580	2,423
		874	389,868	122,044	2,580	-	515,366	515,209
Trading liabilities	*17*	52	-	-	-	-	52	52
Trade and other payables	*26*	-	-	-	-	5,339	5,339	5,339
Obligations under rep. agr.	*27*	-	-	-	-	85,792	85,792	85,792
Financial lease liabilities		-	-	-	-	2,809	2,809	2,809
Debt securities issued	*28*	-	-	-	-	51,395	51,395	51,395
Funds borrowed	*29*	-	-	-	-	97,471	97,471	97,471
		52	-	-	-	242,806	242,858	242,858

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

7. Acquisition of subsidiary

On 30 May 2008, the Bank's subsidiary, ÇYS acquired all of the shares in E-Kent for TL 17,000 in cash.

E-Kent is a provider of high-technology solutions and services for modern urban management. E-Kent sells, installs and operates electronic fare collection solutions and electronic payment systems, and provides consulting services for planning and efficiency of public transport services. E-Kent is an electronic fare collection operating company, and currently operates services in four provinces of Turkey. E-Kent has tailored its systems to meet the individual customer requirements of various railway networks, municipalities, public transport companies, car parks, cultural parks, zoos and museums located in major cities in Turkey.

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Property and equipment, net	452	-	452
Intangible assets, net	217	13,936	14,153
Inventories	1,504	-	1,504
Trade and other receivables	1,950	-	1,950
Other assets	3,944	-	3,944
Cash and cash equivalents	1,304	-	1,304
Deferred tax assets	26	(2,787)	(2,761)
Loans and borrowings	(901)	-	(901)
Trade and other payables	(1,155)	-	(1,155)
Other liabilities	(451)	-	(451)
Net identifiable assets and liabilities	**6,890**	**11,149**	**18,039**
Negative goodwill on acquisition			(1,039)
Consideration paid, satisfied in cash			17,000
Cash acquired			(1,304)
Net cash outflow			**15,696**

Pre-acquisition carrying amounts were determined based on applicable IFRS immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated fair values.

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

8. Net interest income

	30 June 2010	30 June 2009
Interest income		
Loans and advances to customers	20,549	14,075
Investment securities	6,365	3,673
Cash and cash equivalents	138	563
Other	186	71
Total interest income	**27,238**	**18,382**
Interest expense		
Funds borrowed	2,704	2,153
Debt issued	4,698	-
Money market transactions	1,386	385
Other	2,708	399
Total interest expense	**11,496**	**2,937**
Net interest income	**15,742**	**15,445**

9. Net fee and commission income

	30 June 2010	30 June 2009
Fee and commission income		
Financial guarantee contracts issued	5,013	1,987
Other	1,805	1,106
Total fee and commission income	**6,818**	**3,093**
Fee and commission expense		
Other	719	337
Total fee and commission expense	**719**	**337**
Net fee and commission income	**6,099**	**2,756**

10. Net trading income

	30 June 2010	30 June 2009
Foreign exchange gain	2,228	545
Fixed income	3,183	1,966
Total	**5,411**	**2,511**

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

11. Income from / (cost of) fare collection services

	30 June 2010	30 June 2009
Sales	1,926	951
Commissions	4,229	3,625
Services	523	357
Gross revenues	**6,678**	**4,933**
Sales returns	-	(2)
Net revenues	**6,678**	**4,931**
Cost of revenues	(4,276)	(2,327)
Gross profit	**2,402**	**2,604**

12. Personnel expenses

	30 June 2010	30 June 2009
Wages and salaries	13,203	10,051
Compulsory social security obligations	1,149	739
Employee termination indemnity and vacation pay liability(net)	223	253
Other	1,405	869
Total	**15,980**	**11,912**

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

13. Administrative expenses

	30 June 2010	30 June 2009
Rent expenses	1,775	1,785
Publicity expenses	1,359	269
Depreciation and amortization expense	1,225	1,413
Taxes and dues other than on income	962	384
Contribution expense	831	1,186
Expenses on vehicles	754	586
Communication expenses	519	338
Consultancy expenses	443	410
Travelling expenses	370	384
Representation expenses	296	142
Software maintenance expenses	285	196
Reuters expenses	153	147
Maintenance expenses	64	538
Subscription expenses	34	44
Others	795	61
Total	**9,865**	**7,883**

14. Taxation

General information

The Group 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.

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

14. Taxation *(continued)*

As of 30 June 2010 and 31 December 2009, the current tax liability is as follows:

	30 June 2010	31 December 2009
Income tax liability	940	-
Prepaid taxes	(354)	(189)
(Prepaid taxes) / Income taxes payable	**586**	**(189)**

For the period ended 30 June 2010 and 30 June 2009, the income tax expense recognised in comprehensive income statement and income tax recognised directly in equity are as follows:

Recognised in income statement

	30 June 2010	30 June 2009
Current tax expense	(898)	(1,209)
Deferred tax	561	170
- Origination and reversal of temporary differences	*271*	*(119)*
- Tax loss carry-forwards	*290*	*289*
Total income tax	**(337)**	**(1,039)**

Income tax recognised directly in equity

	30 June 2010	30 June 2009
Available-for-sale investment securities		
- Deferred tax	188	630
- Current tax	(23)	(24)
	165	**606**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Group for the period ended 30 June 2010 and 30 June 2009 is as follows:

	30 June 2010	Rate %	30 June 2009	Rate %
Profit before income tax	8,367		4,745	
Income tax using the domestic corporation tax rate 20%	(1,673)	(20.00)	(949)	(20.00)
Non-deductible expenses	(66)	(0.79)	(232)	(4.89)
Tax exempt income	1,206	14.42	334	7.04
Other	196	2.34	(192)	(4.05)
Total income tax in the income statement	**(337)**	**(4.03)**	**(1,039)**	**(21.09)**

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

14. Taxation *(continued)*

Deferred tax

Recognised deferred tax assets and liabilities

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

	30 June 2010			31 December 2009		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale investment securities	105	(203)	(98)	104	(392)	(288)
Held-to-maturity investment securities	13	-	13	11	-	11
Derivative financial instruments	42	(3)	39	10	-	10
Tax loss carry-forwards	1,246	-	1,246	956	-	956
Retirement pay liability	19	-	19	14	-	14
Unused vacation liability	163	-	163	123	-	123
Property, equipment and intangible assets	1,129	(3,767)	(2,638)	389	(3,227)	(2,838)
Other	85	(20)	65	72	-	72
Deferred tax assets / (liabilities)	**2,802**	**(3,993)**	**(1,191)**	**1,679**	**(3,619)**	**(1,940)**

Reflected in the consolidated balance sheet as follows:

	30 June 2010	31 December 2009
Deferred tax liabilities	(1,119)	(1,940)
	(1,191)	**(1,940)**

Unrecognised deferred tax assets

	30 June 2010	31 December 2009
Tax losses	298	494
	298	**494**

The tax losses related to ÇYS expire in 2013. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against with ÇYS can utilise the benefits there from.

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

14. Taxation *(continued)*

Deferred tax *(continued)*

Movements in temporary differences during the period

30 June 2010	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	(288)	2	188	(98)
Held-to-maturity investment securities	11	2	-	13
Derivative financial instruments	10	29	-	39
Tax loss carry-forwards	956	290	-	1,246
Retirement pay liability	14	5	-	19
Unused vacation liability	123	40	-	163
Property, equipment and intangible assets	(2,838)	200	-	(2,638)
Other	72	(7)	-	65
	(1,940)	**561**	**188**	**(1,191)**

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

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

15. Cash and cash equivalents

	30 June 2010	31 December 2009
Cash and balances with Central Bank	18,309	9,862
- Cash on hand	*1,992*	*1,545*
- Balances with Central Bank	*16,317*	*8,317*
Placements with other banks	36,730	64,542
Other money market placements	-	26,505
Other	22	18
Total	**55,061**	**100,927**

16. Reserve deposits at Central Bank

	30 June 2010	31 December 2009
Foreign currency	15,156	8,395
	15,156	**8,395**

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"), Banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Group'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% and 9.5%, respectively as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (31 December 2009 – 5% for TL and 9% for USD or EUR).

As of 30 June 2010, the interest rates applied for TL reserve deposits by the Central Bank are 5.20% for TL reserve deposits (31 December 2009 – 5.20% for TL). As of 30 June 2010 and 31 December 2009, foreign currency reserve deposits are non-interest earning.

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

17. Trading assets and liabilities

Trading assets

	30 June 2010	31 December 2009
Trading securities		
- Government bonds and treasury bills	438	874
- Fund	551	-
Derivative assets		
- Foreign exchange	13	-
	1,002	**874**

Trading liabilities

	30 June 2010	31 December 2009
Derivative liabilities		
- Foreign exchange	207	52
	207	**52**

As of 30 June 2010, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As of 30 June 2010, no trading debt securities pledged under repurchase agreements (31 December 2009 – TL 874).

As of 30 June 2010 and 31 December 2009, all trading debt securities have fixed interest rates.

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

	30 June 2010	31 December 2009
Forward foreign exchange contracts – buy(*)	3,635	3,673
Forward foreign exchange contracts – sell(*)	3,622	3,665
Swap foreign exchange contracts – buy	22,295	4,445
Swap foreign exchange contracts – sell	22,464	4,512

(*) Included spot and forward transactions.

18. Trade and other receivables

	30 June 2010	31 December 2009
Receivables from customers, net	1,070	1,356
- Receivables from customers, gross	*1,070*	*1,356*
- Less impairment for receivables from customers	-	-
Cheques receivable	13	10
	1,083	**1,366**

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

19. Inventories

	30 June 2010	31 December 2009
Trading goods	3,022	3,295
	3,022	**3,295**

Trading goods consist of E-kent's inventories such as tickets and cards for electronic fare collection.

20. Loans and advances to customers

As of 30 June 2010 and 31 December 2009, all the loans and advances to customers are at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	30 June 2010			31 December 2009		
Corporate customers:						
- Finance leases	5,345	-	5,345	7,274	-	7,274
- Other lending	415,288	(1,727)	413,561	273,660	(1,754)	271,906
	420,633	**(1,727)**	**418,906**	**280,934**	**(1,754)**	**279,180**

Other lending includes factoring receivables of TL 1,243 (31 December 2009: TL 1,018) as of 30 June 2010.

Allowance for impairment

	30 June 2010	30 June 2009
Balance on 1 January	1,754	450
Transfers from provision for non-cash loans to cash – loans	-	294
Impairment loss for the period		
- Charge for the period	17	295
- Recoveries	(44)	-
Balance at the end of the period	**1,727**	**1,039**

Finance lease receivables

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

	30 June 2010	31 December 2009
Gross investment in finance leases, receivable:		
- Less than one year	4,177	4,328
- Between one and five years	1,703	3,921
	5,880	**8,249**
Unearned future income on finance leases	(535)	(975)
Net investment in finance leases	**5,345**	**7,274**
The net investment in finance leases comprises:		
- Less than one year	3,700	3,622
- Between one and five years	1,645	3,652
	5,345	**7,274**

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

21. Investment securities

	30 June 2010			31 December 2009
	Interest rate %	Latest maturity	Carrying amount	Carrying amount
Held-to-maturity investment securities				
- Corporate bonds	8.50	2012	2,802	2,580
Available-for-sale investment securities				
- Government bonds	8.84	2011	106,695	106,187
- Corporate bonds	8.50	2012	17,907	15,857
			127,404	**124,624**

On 7 August 2008, 13 August 2008, 3 October 2008, 19 February 2009, 1 December 2009 and 21 June 2010, the Bank purchased with a nominal value of USD 14,000,000 of corporate bonds of Çalık Holding A.Ş. which is the main shareholder of the Bank. The Bank classified USD 12,000,000 of these bonds to available-for-sale investment securities and USD 2,000,000 to held-to-maturity investment securities. The bonds have a maturity of 5 March 2012 and semi-annual coupon payments with 8.50% of interest.

As at 30 June 2010, TL 11,194 of investment securities is given as collateral and TL 69,539 of investment securities pledged under repurchase agreements (31 December 2009: TL 5,660 and TL 94,719).

22. Investment in associate

The Bank has 24% interest in Çalık Finansal Hizmetler A.Ş. (31 December 2009 – 24%). The following table illustrates the summarised financial information of the Bank's investment in Çalık Finansal Hizmetler A.Ş.:

	30 June 2010	31 December 2009
Share of the Group in the associate's balance sheet		
Assets	484,735	486,314
Liabilities	(460,030)	(466,356)
Net assets	**24,705**	**19,958**

The associate's profit for the period ended 30 June 2010 is TL 33,615 (30 June 2009: 10,999).

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

23. Property and equipment

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor Vehicles	Other fixed assets	Total
Cost						
Balance on 1 January 2009	2,346	1,346	1,213	99	13	5,017
Additions	9,518	1,565	1,489	-	122	12,694
Disposals	-	(1)	(30)	(17)	-	(48)
Balance on 31 December 2009	**11,864**	**2,910**	**2,672**	**82**	**135**	**17,663**
Balance on 1 January 2010	11,864	2,910	2,672	82	135	17,663
Additions	4,179	208	683	-	48	5,118
Disposals	(45)	-	-	-	-	(45)
Balance on 30 June 2010	**15,998**	**3,118**	**3,355**	**82**	**183**	**22,736**
Depreciation and impairment						
Balance on 1 January 2009	981	661	766	26	11	2,445
Depreciation for the year	699	317	128	32	27	1,203
Disposals	-	(1)	(17)	(14)	-	(32)
Balance on 31 December 2009	**1,680**	**977**	**877**	**44**	**38**	**3,616**
Balance on 1 January 2010	1,680	977	877	44	38	3,616
Depreciation for the period	948	259	125	11	18	1,361
Disposals	(10)	-	-	-	-	(10)
Balance on 30 June 2010	**2,618**	**1,236**	**1,002**	**55**	**56**	**4,967**
Carrying amounts						
Balance on 1 January 2009	1,365	685	447	73	2	2,572
Balance on 31 December 2009	10,184	1,933	1,795	38	97	14,047
Balance on 30 June 2010	13,380	1,882	2,353	27	127	17,769

TL 565 of total depreciation expense for the period was recorded under administrative expenses and TL 796 of total depreciation and amortisation expense was recorded under cost of fare collection services (30 June 2009: TL 360 and TL 125).

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

24. Intangible assets

	Software	Rights	Development costs	Total
Cost				
Balance on 1 January 2009	2,755	17,798	581	21,134
Additions	3,109	437	-	3,546
Internally developed	-	-	3,967	3,967
Balance on 31 December 2009	**5,864**	**18,235**	**4,548**	**28,647**
Balance on 1 January 2010	5,864	18,235	4,548	28,647
Additions	883	146	-	1,029
Internally developed	-	-	1,902	1,902
Balance on 30 June 2010	**6,747**	**18,381**	**6,450**	**31,578**
Amortisation				
Balance on 1 January 2009	1,934	1,397	-	3,331
Amortisation for the year	323	3,025	118	3,466
Balance on 31 December 2009	**2,257**	**4,422**	**118**	**6,797**
Balance on 1 January 2010	2,257	4,422	118	6,797
Amortisation for the period	99	1,531	374	2,004
Balance on 30 June 2010	**2,356**	**5,953**	**492**	**8,801**
Carrying amounts				
Balance on 1 January 2009	821	16,401	581	17,803
Balance on 31 December 2009	3,607	13,813	4,430	21,850
Balance on 30 June 2010	4,391	12,428	5,958	22,777

TL 660 of total amortisation expense for the period was recorded under administrative expenses and TL 1,344 of total amortisation expense was recorded under cost of fare collection services (30 June 2009: TL 1,053 and TL 599).

25. Other assets

	30 June 2010	31 December 2009
Prepaid expenses	1,532	275
Transitory accounts	1,116	18
Receivables from clearing house	824	37
Advances given	814	853
Deferred VAT	766	992
Prepaid taxes	2	189
Others	451	177
	5,505	**2,541**

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

26. Trade and other payables

	30 June 2010	31 December 2009
Advances taken	1,853	1,731
Payables to suppliers	986	1,854
Notes payable	827	827
Deposits and guarantees taken	644	832
Other liabilities	35	95
	4,345	**5,339**

27. Obligations under repurchase agreements

	30 June 2010	31 December 2009
Obligations under repurchase agreements	67,931	85,792
	67,931	**85,792**

TL 69,539 of investment securities are pledged under repurchase agreements as of 30 June 2010 (31 December 2009 – TL 874 of trading debt securities and TL 94,719 of investment securities).

28. Debt securities issued

	30 June 2010	31 December 2009
Debt securities issued	113,508	51,395
	113,508	**51,395**

	30 June 2010	31 December 2009
Nominal of debt securities issued	116,156	54,556
Valuation difference of debt securities issued	(2,648)	(3,161)
	113,508	**51,395**

In 2010, the Bank issued debt securities with a maturity between 1 July 2010 and 10 December 2010. The interest rate for debt securities is between 8.59%-11%.

29 Funds borrowed

	30 June 2010	31 December 2009
Domestic banks – TL	1,559	2,201
Domestic banks – Foreign currency	39,483	33,629
Foreign banks – TL	39,953	-
Foreign banks – Foreign currency	102,132	61,641
	183,127	**97,471**

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

30. Provisions

	30 June 2010	31 December 2009
Vacation pay liability	815	617
Employee termination benefits	97	72
Provision for non-cash loans	2	1
Other	25	23
	939	**713**

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group 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 2.43 and TL 2.37 on 30 June 2010 and 31 December 2009, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the financial statements as of 30 June 2010 and 31 December 2009, the Group reflected a liability calculated using the statistical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the balance sheet date.

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

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

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

	30 June 2010	31 December 2009
Opening balance	72	76
Interest cost	18	14
Service cost	31	32
Payment during the period	(31)	(98)
Actuarial difference	7	48
Balance at the end of the period	**97**	**72**

Vacation pay liability

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

	30 June 2010	31 December 2009
On 1 January	617	330
Increase during the period	316	350
Paid	(118)	(63)
Balance at the end of the period	**815**	**617**

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

31. Other liabilities

	30 June 2010	31 December 2009
Customer accounts	118,565	126,402
Transitory accounts	7,713	949
Cash collaterals received	4,260	26,940
Taxes and due payable	2,387	1,523
Payables to clearing house	1,229	197
Unearned income	1,149	267
Import transfer orders	843	-
Other	976	2,075
	137,122	**158,353**

The Bank is not entitled to collect deposits. Current accounts represent the current balances of loan customers.

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

32. Capital and reserves

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

Share capital and share premium

As of 30 June 2010 and 31 December 2009, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 June 2010		31 December 2009	
	Amount	%	Amount	%
Çalık Holding A.Ş.	152,728	98.51	152,728	98.51
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	1,224	0.78	1,224	0.78
Ahmet Çalık	544	0.35	544	0.35
Başak Enerji Elektrik Üretim San. ve Tic. A.Ş.	272	0.18	272	0.18
Irmak Enerji Elektrik Üretim Madencilik San. ve Tic. A.Ş.	272	0.18	272	0.18
Total paid-in-capital	**155,040**	**100.00**	**155,040**	**100.00**
Restatement effect	5,448		5,448	
Total share capital	**160,488**		**160,488**	

Reserves

Fair value reserve

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

Other reserves

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

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

33. Related parties

Parent and ultimate controlling party

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

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the period is TL 3,674 (30 June 2009: TL 2,502).

Balances with related parties

30 June 2010	Related Party Balances	Total Balance	Rate %
Loans and advances to customers	256,479	418,906	61.23
Other liabilities (Customer accounts)	4,386	118,565	3.70

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

In addition to balances with related parties above, the Group has corporate bonds issued by Çalık Holding A.Ş. amounting to USD 14,000,000 (31 December 2009: 14,000,000 USD) of nominal value. The Group has reclassified USD 12,000,000 (31 December 2009: 12,000,000 USD) of these bonds to available-for-sale investment securities and USD 2,000,000 (31 December 2009: 2,000,000 USD) to held-to-maturity investment securities. As of 30 June 2010, the carrying value of available-for-sale investment securities and held-to-maturity investment securities are TL 17,907 (31 December 2009: TL 15,857) and TL 2,802 (31 December 2009: TL 2,580), respectively.

Off balance sheet balances with related parties

30 June 2010	Related Party Balances	Total Balance	Rate %
Non-cash loans	411,446	723,128	56.90
Swap transactions-buying	3,078	25,930	11.87
Swap transactions-selling	3,029	26,086	11.61

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

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

33. Related parties *(continued)*

Transactions with related parties

	30 June 2010	30 June 2009
Interest income on loans	11,941	4,554
Fee and commission income	1,230	677
Rent expenses	1,783	1,742
Accommodation expenses	831	1,186

34. Commitments and contingencies

	30 June 2010	31 December 2009
Letters of guarantee	607,539	377,896
Letters of credit	71,623	52,423
Other guarantees	43,966	68,260
	723,128	**498,579**

35. Subsequent events

At 29 July 2010, reserve requirement ratio for foreign currency liabilities has been increased from 9.5% to 10%.