# Tekstil Bankası Anonim Şirketi and Its Subsidiaries

Consolidated Financial Statements
As at and for the Year Ended 31 December 2011
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi
22 February 2012

*This report contains 1 page of independent auditors' report and 56 pages of consolidated financial statements together with their explanatory notes.*

**Tekstil Bankası Anonim Şirketi and Its Subsidiaries**

**TABLE OF CONTENTS**

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tekstil Bankası Anonim Şirketi:

## Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tekstil Bankası Anonim Şirketi and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies.

## Auditors' responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

22 February 2012
Istanbul, Turkey

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
**At 31 December 2011**
**(Currency – In thousands of Turkish Lira (TL))**

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank | 6 | 205,284 | 118,675 |
| Deposits with other banks and financial institutions | 6 | 107,542 | 76,144 |
| Reserve deposits at the Central Bank | 7 | 98,457 | 56,250 |
| Trading securities | 8 | 1,413 | 360 |
| Derivative financial instruments | 19 | 24,421 | 4,451 |
| Loans and advances | 10 | 2,486,720 | 1,857,491 |
| Investment securities - available for sale | 9 | 350,218 | 323,363 |
| Assets held for sale | 11 | 13,811 | 12,467 |
| Property and equipment | 12 | 80,013 | 77,146 |
| Intangible assets | 13 | 1,532 | 1,667 |
| Deferred tax assets | 18 | 8,756 | 4,093 |
| Other assets | 14 | 105,227 | 26,211 |
| **Total assets** | | **3,483,394** | **2,558,318** |
| **LIABILITIES** | | | |
| Deposits from banks | 15 | 172 | 8,054 |
| Deposits from customers | 15 | 2,456,383 | 1,774,693 |
| Other money market deposits | 15 | 126,255 | 143,166 |
| Derivative financial instruments | 19 | 27,113 | 6,935 |
| Funds borrowed | 16 | 241,739 | 67,328 |
| Other liabilities | 17 | 97,479 | 49,637 |
| Income tax payable | 18 | 4,326 | 2,647 |
| Provisions | 17 | 8,099 | 6,838 |
| **Total liabilities** | | **2,961,566** | **2,059,298** |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital issued | 20 | 420,000 | 420,000 |
| Adjustment to share capital | | 4,108 | 4,108 |
| Share capital premium | | 184 | 184 |
| Fair value reserves | | 581 | 8,220 |
| Revaluation surplus on buildings | | 18,839 | 14,580 |
| Translation reserve | | - | (2,287) |
| Legal reserves and retained earnings | 21 | 78,116 | 54,215 |
| **Total equity** | | **521,828** | **499,020** |
| **Total liabilities and equity** | | **3,483,394** | **2,558,318** |

The accompanying policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

## Tekstil Bankası Anonim Şirketi and Its Subsidiaries

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 31 December 2011**
**(Currency – In thousands of Turkish Lira (TL))**

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Interest income** | | | |
| Interest on loans and advances | | 228,237 | 156,850 |
| Interest on securities | | 27,802 | 25,166 |
| Interest on deposits with other banks and financial institutions | | 1,485 | 2,305 |
| Interest on other money market placements | | 8 | 38 |
| Other interest income | | 311 | 1,653 |
| **Total interest income** | | **257,843** | **186,012** |
| **Interest expense** | | | |
| Interest on deposits | | (134,442) | (79,482) |
| Interest on funds borrowed | | (10,258) | (4,137) |
| Interest on other money market deposits | | (9,439) | (6,256) |
| Other interest expense | | (109) | (113) |
| **Total interest expense** | | **(154,248)** | **(89,988)** |
| **Net interest income** | | **103,595** | **96,024** |
| Provision for impairment of loans and advances | 10 | (14,384) | (10,200) |
| **Net interest income after provision for impairment of loans and advances** | | **89,211** | **85,824** |
| Foreign exchange gain, net | | 8,083 | 3,403 |
| **Net interest income after foreign exchange gain and provision for impairment of loans and advances** | | **97,294** | **89,227** |
| **Other operating income** | | | |
| Fees and commission income | 25 | 10,852 | 7,964 |
| Income from banking services | 26 | 15,151 | 15,254 |
| Net trading income | 9,27 | 10,683 | 9,612 |
| Other income | 28 | 6,063 | 3,900 |
| | | 42,749 | 36,730 |
| **Other operating expenses** | | | |
| Fees and commission expense | 25 | (4,373) | (3,955) |
| Salaries and employee benefits | 29 | (64,424) | (60,180) |
| Depreciation and amortization | 11,12,13 | (4,513) | (5,186) |
| Taxes other than on income | | (5,614) | (4,250) |
| General and administrative expenses | 30 | (23,734) | (22,886) |
| Other expenses | 31 | (8,979) | (8,635) |
| | | (111,637) | (105,092) |
| **Profit from operating activities before income tax** | | **28,406** | **20,865** |
| Income tax – current | 18 | (9,366) | (6,211) |
| Income tax – deferred | 18 | 4,861 | 1,850 |
| **Net profit for the year** | | **23,901** | **16,504** |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
**For the year ended 31 December 2011**
**(Currency – In thousands of Turkish Lira (TL))**

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Attributable to:** | | | |
| Equity holders of the parent | | 23,901 | 16,504 |
| Non-controlling interest | | - | - |
| **Net profit** | | **23,901** | **16,504** |
| **Earnings per share (Kurus)** | 23 | **0.57** | **0.39** |
| **Other comprehensive income** | | | |
| Foreign exchange differences on translation of foreign operations | | 2,287 | 15 |
| Fair value reserves (available-for-sale financial assets) | | | |
| Net change in fair value | | (6,831) | 4,477 |
| Net amount transferred to income | | (808) | (339) |
| Revaluation surplus on buildings, net | | 4,259 | 9,553 |
| **Other comprehensive income for the year, net of tax** | | **(1,093)** | **13,706** |
| **Total comprehensive income for the year** | | **22,808** | **30,210** |
| **Attributable to:** | | | |
| Equity holders of the parent | | **22,808** | **30,210** |
| Non-controlling interest | | **-** | **-** |

The accompanying policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

## Tekstil Bankası Anonim Şirketi and Its Subsidiaries

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
**For the year ended 31 December 2011**
**(Currency – In thousands of Turkish Lira (TL))**

| | | Attributable to equity holders of the parent | | | | | | | | Non-controlling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital | Adjustment to share capital | Share capital premium | Fair value reserves | Translation reserve | Revaluation surplus on buildings | Legal reserves and retained earnings | Total | | |
| **At 1 January 2010** | | 420,000 | 4,108 | 184 | 4,082 | (2,302) | 5,027 | 37,711 | 468,810 | - | 468,810 |
| **Comprehensive income for the year** | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 16,504 | 16,504 | - | 16,504 |
| **Other comprehensive income** | | | | | | | | | | | |
| Net change in available- for -sale investments | | - | - | - | 4,138 | - | - | - | 4,138 | - | 4,138 |
| Currency translation difference | | - | - | - | - | 15 | - | - | 15 | - | 15 |
| Revaluation surplus on buildings | 12 | - | - | - | - | - | 9,553 | - | 9,553 | - | 9,553 |
| Total comprehensive income for the year | | - | - | - | 4,138 | 15 | 9,553 | 16,504 | 30,210 | - | 30,210 |
| **At 31 December 2010 / 1 January 2011** | | **420,000** | **4,108** | **184** | **8,220** | **(2,287)** | **14,580** | **54,215** | **499,020** | **-** | **499,020** |
| **Comprehensive income for the year** | | | | | | | | | | | |
| Profit for the year | | - | - | - | - | - | - | 23,901 | 23,901 | - | 23,901 |
| **Other comprehensive income** | | | | | | | | | | | |
| Net change in available- for -sale investments | | - | - | - | (7,639) | - | - | - | (7,639) | - | (7,639) |
| Currency translation difference | | - | - | - | - | 2,287 | - | - | 2,287 | - | 2,287 |
| Revaluation surplus on buildings | 12 | - | - | - | - | - | 4,259 | - | 4,259 | - | 4,259 |
| Total comprehensive income for the year | | - | - | - | (7,639) | 2,287 | 4,259 | 23,901 | 22,808 | - | 22,808 |
| **At 31 December 2011** | | **420,000** | **4,108** | **184** | **581** | **-** | **18,839** | **78,116** | **521,828** | **-** | **521,828** |

The accompanying policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
**For the year ended 31 December 2011**
**(Currency – In thousands of Turkish Lira (TL))**

| | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 234,817 | 183,671 |
| Interest paid | | (141,232) | (88,072) |
| Fees and commissions received | | 11,001 | 9,322 |
| Income from banking services | | 16,041 | 15,254 |
| Trading income | | 10,683 | 9,612 |
| Fees and commissions paid | | (4,373) | (3,955) |
| Cash payments related to employee benefits and similar items | | (63,653) | (59,444) |
| Cash received from other operating activities | | 3,878 | 6,947 |
| Cash paid for other operating activities | | (34,303) | (31,381) |
| Income taxes paid | | (6,022) | (6,044) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **26,837** | **35,910** |
| **Changes in operating assets and liabilities** | | | |
| Trading securities | | (1,461) | 351 |
| Reserve deposits at Central Bank | | (42,207) | (8,268) |
| Loans and advances | | (641,765) | (291,907) |
| Other assets | | (79,022) | (3,233) |
| Deposits from other banks | | (7,882) | 4,932 |
| Deposits from customers | | 671,840 | 315,531 |
| Other money market deposits | | (16,966) | 137,487 |
| Other liabilities | | 45,766 | 5,166 |
| **Net cash (used in) / provided by operating activities** | | **(71,697)** | **160,059** |
| **Cash flows from investing activities** | | | |
| Purchases of available for sale securities | | (215,260) | (170,816) |
| Proceeds from sale and redemption of available for sale securities | | 192,184 | 83,387 |
| Proceeds from sale of assets held for sale | | 8,255 | 11,520 |
| Purchases of property and equipment | 12 | (2,061) | (350) |
| Proceeds from the sale of property and equipment | | 128 | 33 |
| Purchase of intangible assets | 13 | (180) | (125) |
| **Net cash used in investing activities** | | **(16,934)** | **(76,351)** |
| **Cash flows from financing activities** | | | |
| Proceeds from funds borrowed | | 285,660 | 105,632 |
| Repayments of funds borrowed | | (114,358) | (183,773) |
| **Net cash provided by / (used in) financing activities** | | **171,302** | **(78,141)** |
| Effect of exchange rates on cash and cash equivalents | | 8,478 | 1,158 |
| Net increase in cash and cash equivalents | | 117,986 | 42,635 |
| Cash and cash equivalents at the beginning of year | | 194,817 | 152,182 |
| **Cash and cash equivalents at the end of year** | 6 | **312,803** | **194,817** |

The accompanying policies and explanatory notes on pages 6 through 56 form an integral part of these consolidated financial statements.

**Index for notes to the consolidated financial statements**

**(Currency – In thousands of Turkish Lira (TL))**

## 1. CORPORATE INFORMATION

### General

Tekstil Bankası Anonim Şirketi (a Turkish joint stock company – "Tekstilbank" or "the Bank") was incorporated on 29 April 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.50% of the total, are listed on the Istanbul Stock Exchange since May 1990.

The registered office address of the Bank is located at Maslak Mahallesi Büyükdere Caddesi, No. 247, Şişli 34398 Istanbul/Turkey.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

### Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The information related to the subsidiary included in consolidation and effective shareholding percentages of the Group at 31 December 2011 is as follows:

| | Place of Incorporation | Principal Activities | Effective Shareholding And Voting Rights (%) | |
|---|---|---|---|---|
| Tekstil Yatırım Menkul Değerler A.Ş. ("Tekstil Yatırım") | Istanbul/Turkey | Brokerage | 99.92 | 99.92 |

As at 31 December 2010, the subsidiary; The Euro Textile International Banking Unit Ltd. ("ETB") is included in consolidation. The activities of ETB have been officially demised at 18 July 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention except for derivative financial instruments, trading securities, available-for-sale financial assets and buildings that have been measured at fair value.

The Bank and its subsidiary maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, 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 International Financial Reporting Standards ("IFRS") in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Use of Judgments and Estimates

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

*(a) Impairment of available-for-sale equity instruments:*

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

*(b) Impairment on property and equipment:*

After recognition, the Group assesses the recoverable amount of its property and equipment. In assessing whether there is any indication that an impairment loss recognized in prior periods for the property and equipment may no longer exists or may have decreased, the Group considers the asset's value in use and the expected cash inflows that are largely independent of the cash inflows from other assets.

**Estimates**

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*(a) Impairment Losses on Loans and Advances:*

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgments 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 group. Impairment and uncollectibility are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of loans and advances as at 31 December 2011 is TL 2,486,720 (2010 – TL 1,857,491) net of allowance for impairment of TL 88,593 (2010 – TL 74,284).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(b) Fair Value of Derivatives and Other Financial Instruments:*

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 5.

*(c) Income Taxes:*

The Bank and its subsidiary Tekstil Yatırım are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly. As at 31 December 2011, the Group carries a net deferred tax asset amounting to TL 8,756 (2010 – TL 4,093).

*(d) Employee Termination Benefits:*

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations disclosed in Note 17 are reviewed regularly. The carrying value of provision for employee termination benefit as at 31 December 2011 is TL 3,283 (2010 – TL 2,678).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Functional and Presentation Currency

***Functional and Presentation Currency for the Bank and Its Subsidiary:***

The Bank's and Tekstil Yatırım's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL. Turkish Kurus (Kr), which is used in presentation of earnings per share, equals 0.01 Turkish Lira.

### 2.4 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December 2011 and 2010.

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The equity and net income attributable to minority shareholders' interests are shown separately in the statement of financial position and statement of comprehensive income, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights.

The Bank owns 99.97% shares of Tasfiye Halinde Tekstil Bilişim Hizmetleri ve Ticaret A.Ş. ("Tekstil Bilişim"), which is not consolidated in the accompanying financial statements, since Tekstil Bilişim does not actively operate and its total assets constitute only 0.001% of total consolidated assets.

### 2.5 Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of financial position. All differences are taken to the profit or loss.

Foreign currency translation rates used by the Group as at respective year-ends are as follows:

| | Euro / TL (full) | US Dollar / TL (full) |
|---|---|---|
| 31 December 2009 | 2.1603 | 1.5057 |
| 31 December 2010 | 2.0491 | 1.5460 |
| 31 December 2011 | 2.4592 | 1.9065 |

**(Currency – In thousands of Turkish Lira (TL))**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 December 2010, the assets and liabilities of the foreign subsidiary (of which does not have the currency of a hyperinflationary economy) were translated into the presentation currency of the Group ("TL") at the rate of exchange ruling at the date of financial position. The statement of comprehensive income of the foreign subsidiary was translated at yearly average of exchange rates and the difference of translation at the average exchange rates for the year was recorded as currency translation differences in equity. On consolidation, exchange differences arising from the translation of the net investment in foreign entity was included in equity as currency translation differences until the disposal of the net investment.

On disposal of the foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation was recognized in the consolidated statement of comprehensive income under the "other expenses" account.

### 2.6 Property and Equipment

*Owned Assets*

The cost of the property and equipment purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to International Accounting Standards ("IAS") 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses except for buildings. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholders' equity.

*Leased Assets*

Leases in terms of which the Bank and its subsidiaries assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated statement of comprehensive income.

*Subsequent Expenditures*

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the consolidated statement of comprehensive income as incurred.

*Depreciation*

Property and equipment are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Machinery and equipment | 4 – 10 years |
| Office equipment, furniture and fixtures | 3 – 50 years |
| Motor vehicles | 4 – 5 years |
| Leasehold improvements | Lease period |

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Assets Held for Sale

Assets held for sale are stated at cost less accumulated depreciation and any impairment in value. Buildings classified as assets held for sale are depreciated on a straight-line basis over the estimated useful life of 50 years, and machinery and equipment are depreciated over useful life of 5 years.

Assets held for sale are derecognized when either they have been disposed of or when the assets held for sale are permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an asset held for sale are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal.

Transfers are made to assets held for sale when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from assets held for sale when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

### 2.8 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

### 2.9 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets, i.e. for assets carried at cost or amortized cost, change in value is not recognized; for assets classified as trading or as available for sale, the change in value is recognized through profit or loss and in equity, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Financial Assets at Fair Value through Profit or Loss***

Financial assets classified as held for trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statement of comprehensive income.

***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

***Available for Sale Financial Assets***

Available for sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition, available for sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity’s right to receive payment is established.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the date of financial position. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used.

***Held to Maturity Financial Assets***

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are classified in the consolidated financial statements within the security portfolio they belong to. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

Securities purchased with a corresponding commitment to resell at a specified future date ('reverse repos') are not recognized in the consolidated statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using effective interest method.

### 2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### 2.12 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, that are recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.13 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with original maturities of three months or less.

### 2.14 Impairment of Financial Assets

***Assets Carried at Amortized Cost***

The Group assesses at each date of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data coming to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) 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;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) 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:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in the consolidated statement of comprehensive income.

***Assets Carried at Cost***

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

***Available for Sale Financial Assets***

If an available for sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of comprehensive income, is transferred from equity to the consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of comprehensive income.

### 2.15 Interest bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

### 2.16 Employee Benefits

The Group has both defined benefit and defined contribution plans as described below:

***Defined Benefit Plans:***

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Defined Contribution Plans:***

For defined contribution plans, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

### 2.17 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

### 2.18 Leases

**The Group as Lessee**

***Finance Leases***

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the asset.

***Operating Leases***

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.19 Income and Expense Recognition

Interest income and expense are recognized in the consolidated statement of comprehensive income for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

Dividends are recognized when the shareholders' right to receive the payments is established.

### 2.20 Income Tax

Tax expense (income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

***Current Tax***

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

***Deferred Tax***

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income tax relating to items recognized directly in equity is recognized in equity.

### 2.21 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated statement of comprehensive income.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

### 2.22 Fiduciary Assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

### 2.23 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

### 2.24 Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 2.25 New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2011, and have not been applied in preparing these consolidated financial statements. Among those new standards, the following are expected to have effect on the consolidated financial statements of the Group:

*IFRS 9 Financial Instruments* could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.

The amendments to *IAS 1 Presentation of Items of Other Comprehensive Income* require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 July 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*IFRS 10 Consolidated Financial Statements* supersedes IAS 27 (2008) and SIC-12 *Consolidation—Special Purpose Entities* and becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 12 Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities and becomes effective for annual periods beginning on or after 1 January 2013.

*IFRS 13 Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.

Amendments to *IAS 19 Employee Benefits* include changes in the accounting of defined benefit plans. The amendments are effective for annual periods beginning on or after 1 January 2013.

The Group does not plan to adopt these standards early and the extent of the impact has not been determined yet.

## 3. SEGMENT INFORMATION

***Operating Segments***

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

**(Currency – In thousands of Turkish Lira (TL))**

## 3. SEGMENT INFORMATION (continued)

Segment information at 31 December 2011 is as follows:

Year ended 31 December 2011

| **31 December 2011** | **Retail Banking** | **Corporate, Commercial & SME Banking** | **Other Operations** | **Total** |
|---|---|---|---|---|
| Operating income | 22,369 | 93,219 | 24,455 | **140,043** |
| Operating expenses | (17,505) | (69,545) | (24,587) | **(111,637)** |
| **Income/loss from operations** | **4,864** | **23,674** | **(132)** | **28,406** |
| Taxation charge | - | - | (4,505) | **(4,505)** |
| **Net income for the period** | **4,864** | **23,674** | **(4,637)** | **23,901** |
| **Assets and Liabilities** | | | | |
| Segment assets | 356,897 | 2,142,607 | 983,848 | **3,483,352** |
| Investments in equity participations | - | - | 42 | **42** |
| **Total assets** | **356,897** | **2,142,607** | **983,890** | **3,483,394** |
| Segment liabilities | 1,460,952 | 1,153,812 | 346,802 | **2,961,566** |
| Shareholders' equity | - | - | 521,828 | **521,828** |
| **Total liabilities and shareholders' equity** | **1,460,952** | **1,153,812** | **868,630** | **3,483,394** |

## 4. FINANCIAL RISK MANAGEMENT

### General

A dedicated member of the Board is assigned as Risk Supervisor who heads the Risk Management Group. The Risk Management Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Group reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- the supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- the preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- the maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

### Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports those control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

The credibility of the debtors of the Bank is assessed periodically in accordance with the "Communiqué on Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves".

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

As at 31 December 2011, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 43% (2010 – 50%).

As at 31 December 2011, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 73% (2010 – 70%).

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

Maximum exposure to credit risk:

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Balances with Central Bank | 275,383 | 153,868 |
| Due from banks | 107,542 | 76,144 |
| Loans and advances to customers | 2,486,720 | 1,857,491 |
| *Standard loans* | *2,427,695* | *1,799,551* |
| *Close monitoring loans* | *40,447* | *38,259* |
| *Impaired loans, net* | *18,578* | *19,681* |
| Trading securities (*) | 404 | 360 |
| Derivative financial instruments | 24,421 | 4,451 |
| Available for sale securities (*) | 349,558 | 322,992 |
| Other assets | 103,410 | 24,615 |
| **Credit risk exposures relating to on-balance sheet items:** | **3,347,438** | **2,439,921** |
| Letters of guarantee | 887,708 | 718,246 |
| Letters of credit and other guarantees | 337,440 | 169,975 |
| Credit card limit commitments | 198,968 | 194,383 |
| Other commitments | 130,775 | 119,929 |
| **Credit risk exposures relating to off-balance sheet items:** | **1,554,891** | **1,202,533** |
| **Total** | **4,902,329** | **3,642,454** |

(*) Excluding equity securities and mutual funds.

The above table represents a worst case scenario of credit risk exposure of the Group at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Details of loan exposures:

| **Loans and advances to customers** | **31 December 2011** | **31 December 2010** |
|---|---|---|
| Individually impaired | 107,171 | 93,965 |
| Allowance for impairment (*) | (88,593) | (74,284) |
| **Carrying amount** | **18,578** | **19,681** |
| Collectively impaired | - | - |
| Allowance for impairment | - | - |
| **Carrying amount** | **-** | **-** |
| Past due but not impaired | 34,763 | 23,357 |
| **Carrying amount** | **34,763** | **23,357** |
| Neither past due nor impaired | 2,426,438 | 1,805,964 |
| Loans with renegotiated terms | 6,941 | 8,489 |
| **Carrying amount** | **2,433,379** | **1,814,453** |
| **Total carrying amount** | **2,486,720** | **1,857,491** |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

(*) As at 31 December 2011, allowance for impairment includes TL 23,755 (2010 – TL 15,538) of portfolio reserve, which is provided on past experience and management assessments of current economic environment and overall loan portfolio.

*Impaired loans and receivables*

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

*Past due but not impaired loans*

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

*Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

*Allowances for impairment*

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

*Write-off policy*

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

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

| | **Loans and advances to customers** | |
|---|---|---|
| **31 December 2011** | **Gross** | **Net** |
| Grade 6 : Loans and Receivables with Limited Collectibility | 22,404 | 18,742 |
| Grade 7 : Loans and Receivables with Doubtful Collectibility | 10,224 | 2,428 |
| Grade 8 : Uncollectible Loans and Receivables | 74,543 | 21,163 |
| Portfolio reserve | - | (23,755) |
| **Total** | **107,171** | **18,578** |

| **31 December 2010** | **Gross** | **Net** |
|---|---|---|
| Grade 6 : Loans and Receivables with Limited Collectibility | 3,095 | 2,173 |
| Grade 7 : Loans and Receivables with Doubtful Collectibility | 12,177 | 3,930 |
| Grade 8 : Uncollectible Loans and Receivables | 78,693 | 29,116 |
| Portfolio reserve | - | (15,538) |
| **Total** | **93,965** | **19,681** |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

As at 31 December 2011 and 2010, the Group has no allowance for other assets such as loans and advances to banks and marketable securities. The Group has provided impairment for equity participations recorded under other assets, assets held for sale and buildings as at 31 December 2011 amounting to TL 66, TL 1,289 and TL 699, respectively (2010 – TL 60, TL 1,841 and TL 699, respectively).

*Collateral policy*

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The breakdown of cash and non-cash loans and advances to customers by type of collateral is as follows:

| **Cash Loans** | **2011** | **2010** |
|---|---|---|
| Secured loans: | 2,214,765 | 1,637,423 |
| Secured by mortgages | 616,764 | 464,196 |
| Secured by cash collateral | 86,954 | 75,127 |
| Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 1,511,047 | 1,098,100 |
| Unsecured loans | 253,377 | 200,387 |
| Impaired loans, net | 18,578 | 19,681 |
| **Total** | **2,486,720** | **1,857,491** |

| **Non-cash Loans** | **2011** | **2010** |
|---|---|---|
| Secured loans: | 985,468 | 664,442 |
| Secured by mortgages | 37,707 | 28,738 |
| Secured by cash collateral | 37,346 | 16,870 |
| Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 910,415 | 618,834 |
| Unsecured loans | 239,680 | 223,779 |
| **Total** | **1,225,148** | **888,221** |

The breakdown of non-performing loans and receivables based on the types of colletarals held against them is as follows:

| | **2011** | **2010** |
|---|---|---|
| Secured by mortgages | 29,651 | 40,590 |
| Pledge on vehicles and other collateral | 3,436 | 4,230 |
| Unsecured | 74,084 | 49,145 |
| **Total** | **107,171** | **93,965** |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of sector concentrations of non-performing loans is shown below:

| | 2011 | 2010 |
|---|---|---|
| Consumer loans and credit cards | 22,386 | 23,853 |
| Construction | 16,438 | 10,340 |
| Textile | 9,728 | 9,443 |
| Manufacturing | 8,545 | 622 |
| Automotive | 8,544 | 12,705 |
| Chemistry and plastics | 5,753 | 5,859 |
| Food | 4,753 | 5,929 |
| Agriculture and stockbreeding | 1,843 | 2,723 |
| Electronics | 651 | 375 |
| Finance | 511 | 612 |
| Other | 28,019 | 21,504 |
| **Total non-performing loans** | **107,171** | **93,965** |

Industry exposure information for cash loans and non-cash loans is as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Cash** | **Non-cash** | **Cash** | **Non-cash** |
| Construction | 301,672 | 400,932 | 246,833 | 279,813 |
| Finance | 210,125 | 94,820 | 154,073 | 102,143 |
| Food and Beverages and Tobacco | 206,103 | 62,006 | 120,771 | 48,208 |
| Textile, Fabrics and Yarn Industry | 133,606 | 73,032 | 86,570 | 50,381 |
| Service | 168,914 | 34,525 | 148,651 | 21,117 |
| Energy | 95,077 | 86,395 | 75,626 | 82,792 |
| Iron and Steel | 91,092 | 89,306 | 29,438 | 19,434 |
| Manufacturing | 107,449 | 58,903 | 82,965 | 34,513 |
| Automotive | 99,193 | 33,609 | 60,530 | 26,901 |
| Optics and Electrical Equipments | 61,925 | 63,492 | 35,608 | 19,995 |
| Tourism | 115,070 | 8,672 | 82,400 | 10,809 |
| Chemistry and Plastics | 62,260 | 52,118 | 35,473 | 26,965 |
| Main Metal Product, Processed Materials | 77,216 | 5,661 | 25,265 | 17,132 |
| Foreign Trade | 58,954 | 17,568 | 28,360 | 26,333 |
| Agriculture and Stockbreeding | 27,884 | 46,860 | 15,834 | 36,247 |
| Paper Production and Publishing | 20,867 | 2,776 | 12,775 | 2,449 |
| Others | 293,356 | 94,473 | 328,257 | 82,989 |
| Corporate loans | 2,130,763 | 1,225,148 | 1,569,429 | 888,221 |
| Consumer loans and credit cards | 337,379 | - | 268,381 | - |
| Loans in arrears | 107,171 | - | 93,965 | - |
| Provision for possible loan losses | (88,593) | - | (74,284) | - |
| **Total** | **2,486,720** | **1,225,148** | **1,857,491** | **888,221** |

The Group's activities are mainly concentrated in Turkey. As at 31 December 2011 and 2010, cash loan portfolio including non-performing loans are granted fully in Turkey.

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE (Istanbul Stock Exchange) Settlement and Custody Bank’s Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

Residual contractual maturities of financial liabilities (excluding derivatives):

| 31 December 2011 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 172 | 172 | 172 | - | - | - | - | - |
| Deposits from customers | 2,456,383 | 2,472,580 | 154,868 | 1,516,663 | 706,174 | 94,815 | 60 | - |
| Other money market deposits | 126,255 | 126,255 | - | 126,255 | - | - | - | - |
| Funds borrowed | 241,739 | 245,519 | - | 34,590 | 83,583 | 115,989 | 11,357 | - |
| Other liabilities and provisions | 109,904 | 109,904 | 105,578 | - | 4,326 | - | - | - |
| **Total** | **2,934,453** | **2,954,430** | **260,618** | **1,677,508** | **794,083** | **210,804** | **11,417** | **-** |

| 31 December 2010 | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 8,054 | 8,054 | 8,054 | - | - | - | - | - |
| Deposits from customers | 1,774,693 | 1,781,827 | 151,288 | 1,211,252 | 399,333 | 19,854 | 100 | - |
| Other money market deposits | 143,166 | 143,166 | - | 143,166 | - | - | - | - |
| Funds borrowed | 67,328 | 69,405 | - | 1,497 | 8,403 | 52,553 | 6,952 | - |
| Other liabilities and provisions | 59,122 | 59,122 | 56,475 | - | 2,647 | - | - | - |
| **Total** | **2,052,363** | **2,061,574** | **215,817** | **1,355,915** | **410,383** | **72,407** | **7,052** | **-** |

Major part of the liquidity has been maintained by saving deposits in the Group. The volume of saving deposits has increased by 37% during the period, whereas the proportion of savings deposits over total deposits remained almost same. Additionally, the Group provides funding by long-term loans from international markets and loans from domestic secondary market.

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

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

| | On Demand | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with Central Bank | 205,284 | - | - | - | - | - | - | 205,284 |
| Deposits with other banks and financial institutions | 5,009 | 100,340 | 2,193 | - | - | - | - | 107,542 |
| Reserve deposits at Central Bank | 98,457 | - | - | - | - | - | - | 98,457 |
| Trading securities | 1,009 | 50 | - | - | - | 354 | - | 1,413 |
| Derivative financial instruments | - | 10,274 | 3,391 | 3,448 | 7,308 | - | - | 24,421 |
| Loans and advances | - | 499,464 | 411,581 | 561,351 | 341,782 | 653,964 | 18,578 | 2,486,720 |
| Investment securities | 660 | 694 | 35,386 | 1,915 | 26,820 | 284,743 | - | 350,218 |
| Assets held for sale | - | - | - | - | - | - | 13,811 | 13,811 |
| Property and equipment | - | - | - | - | - | - | 80,013 | 80,013 |
| Intangible assets | - | - | - | - | - | - | 1,532 | 1,532 |
| Deferred tax assets | - | - | - | - | - | 8,756 | - | 8,756 |
| Other assets | - | 91,322 | - | 13,394 | - | - | 511 | 105,227 |
| **Total assets** | **310,419** | **702,144** | **452,551** | **580,108** | **375,910** | **947,817** | **114,445** | **3,483,394** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | 172 | - | - | - | - | - | - | 172 |
| Deposits from customers | 154,868 | 1,510,981 | 698,610 | 68,429 | 23,448 | 47 | - | 2,456,383 |
| Other money market deposits | - | 126,255 | - | - | - | - | - | 126,255 |
| Derivative financial instruments | - | 11,763 | 3,855 | 3,865 | 7,630 | - | - | 27,113 |
| Funds borrowed | - | 34,578 | 83,020 | 60,859 | 52,473 | 10,809 | - | 241,739 |
| Other liabilities | 71,712 | 11,384 | 5,376 | 13,333 | - | - | - | 101,805 |
| Provisions | - | - | - | - | - | 6,172 | 1,927 | 8,099 |
| **Total liabilities** | **226,752** | **1,694,961** | **790,861** | **146,486** | **83,551** | **17,028** | **1,927** | **2,961,566** |
| **Net liquidity gap** | **83,667** | **(992,817)** | **(338,310)** | **433,622** | **292,359** | **930,789** | **112,518** | **521,828** |
| **As at 31 December 2010** | | | | | | | | |
| **Total assets** | **184,190** | **648,869** | **324,958** | **339,099** | **243,778** | **705,947** | **111,477** | **2,558,318** |
| **Total liabilities** | **198,588** | **1,365,087** | **408,872** | **39,737** | **33,382** | **12,196** | **1,436** | **2,059,298** |
| **Net liquidity gap** | **(14,398)** | **(716,218)** | **(83,914)** | **299,362** | **210,396** | **693,751** | **110,041** | **499,020** |

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué published on the Official Gazette no.26333 dated 1 November 2006 and became effective starting from 1 January 2007, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The Parent Bank's liquidity ratios for 2011 are as follows:

| | First Maturity Bracket | | Second Maturity Bracket | |
|---|---|---|---|---|
| Liquidity Ratios | FC Liquidity Adequacy Ratio | Total Liquidity Adequacy Ratio | FC Liquidity Adequacy Ratio | Total Liquidity Adequacy Ratio |
| 31 December 2011 | 198.0 | 183.5 | 127.2 | 130.9 |
| Average (%) | 232.5 | 215.9 | 129.0 | 135.2 |
| Max. (%) | 338.6 | 295.1 | 146.9 | 156.4 |
| Min. (%) | 127.0 | 166.8 | 90.3 | 122.6 |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "equity position risk" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the number, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Approach, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results have been reported to the Senior Level Risk Committee and Asset-Liability Committee in regular periods. By regarding the VaR results, the risk of maturity mismatch has been examined in the Asset-Liability Management Committee and the necessary measures have been taken by the ALCO.

The consolidated value at market risks as at 31 December 2011 and 2010 calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

| | **31 December 2011** | | | **31 December 2010** | | |
|---|---|---|---|---|---|---|
| | **Average** | **Highest** | **Lowest** | **Average** | **Highest** | **Lowest** |
| Interest rate risk | 1,954 | 2,365 | 1,268 | 1,509 | 1,755 | 1,205 |
| Common share risk | 95 | 202 | 45 | 36 | 105 | - |
| Currency risk | 417 | 836 | 154 | 456 | 925 | 201 |
| Commodity risk | - | - | - | - | - | - |
| Option risk | 199 | 442 | 3 | 459 | 1,168 | 34 |
| **Total value at risk (*)** | **33,312** | **43,300** | **26,675** | **30,750** | **47,150** | **24,350** |

(*) The minimum and maximum values of Total VaR represent the minimum and maximum values of 12 month-end calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

The adequate amount of capital that banks shall maintain against losses which may result from existing and potential risks, on a consolidated and unconsolidated basis especially for the General Market Risk and Specific Risk, has been calculated by employing the Standard Approach and reported on a monthly basis regarding the provisions of "Regulation on Measurement and Assessment of Capital Adequacy of Banks".

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

### Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net asset position in foreign currencies, almost entirely in US Dollar, EURO and TL.

The Group's foreign currency position risk is measured by "Standard Approach" and Internal Models. Level of share capital requirement is calculated by using Standard Approach.

The concentrations of assets, liabilities and off balance sheet items are as follows:

| | Turkish Lira | US Dollars | Euro | Others | Total |
|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | |
| **Assets** | | | | | |
| Cash and balances with Central Bank | 96,961 | 100,746 | 6,593 | 984 | 205,284 |
| Deposits with other banks and financial institutions | 10,162 | 92,818 | 3,180 | 1,382 | 107,542 |
| Reserve deposits at Central Bank | - | 98,457 | - | - | 98,457 |
| Trading securities | 1,009 | 352 | 52 | - | 1,413 |
| Derivative financial instruments | 21,811 | 592 | 335 | 1,683 | 24,421 |
| Loans and advances | 1,663,965 | 571,272 | 214,345 | 37,138 | 2,486,720 |
| Investment securities | 327,145 | 23,046 | 27 | - | 350,218 |
| Assets held for sale | 13,811 | - | - | - | 13,811 |
| Property and equipment | 80,013 | - | - | - | 80,013 |
| Intangible assets | 1,532 | - | - | - | 1,532 |
| Deferred tax assets | 8,756 | - | - | - | 8,756 |
| Other assets | 63,867 | 24,715 | 16,618 | 27 | 105,227 |
| **Total assets** | **2,289,032** | **911,998** | **241,150** | **41,214** | **3,483,394** |
| **Liabilities** | | | | | |
| Deposits from banks | 28 | 129 | 15 | - | 172 |
| Deposits from customers | 1,354,645 | 755,969 | 339,973 | 5,796 | 2,456,383 |
| Other money market deposits | 126,255 | - | - | - | 126,255 |
| Derivative financial instruments | 22,819 | 2,236 | 337 | 1,721 | 27,113 |
| Funds borrowed | 36,812 | 140,930 | 62,663 | 1,334 | 241,739 |
| Other liabilities | 89,953 | 6,432 | 4,991 | 429 | 101,805 |
| Provisions | 8,099 | - | - | - | 8,099 |
| **Total liabilities** | **1,638,611** | **905,696** | **407,979** | **9,280** | **2,961,566** |
| **Net on-balance sheet position** | **650,421** | **6,302** | **(166,829)** | **31,934** | **521,828** |
| **Off-balance sheet position** | | | | | |
| Net notional amount of derivatives | (124,600) | (12,883) | 166,144 | (31,179) | (2,518) |
| **Net Position** | **525,821** | **(6,581)** | **(685)** | **755** | **519,310** |
| **As at 31 December 2010** | | | | | |
| Total assets | 1,722,450 | 594,291 | 199,547 | 42,030 | 2,558,318 |
| Total liabilities | 1,279,851 | 580,474 | 183,331 | 15,642 | 2,059,298 |
| Net on-balance sheet position | 442,599 | 13,817 | 16,216 | 26,388 | 499,020 |
| Off-balance sheet position | 61,960 | (20,432) | (17,179) | (26,859) | (2,510) |
| **Net Position** | **504,559** | **(6,615)** | **(963)** | **(471)** | **496,510** |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

*Exposure to currency risk*

A 10 percent devaluation of the TL against the following currencies as at 31 December 2011 and 2010 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

| | **31 December 2011** | | **31 December 2010** | |
|---|---|---|---|---|
| | **Profit or loss** | **Equity (*)** | **Profit or loss** | **Equity (*)** |
| US Dollar | (581) | (494) | (722) | (628) |
| EUR | (68) | (68) | (84) | (84) |
| Other currencies | 79 | 79 | 63 | 63 |
| **Total, net** | **(570)** | **(483)** | **(743)** | **(649)** |

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

### Cash Flow and Fair Value Interest Rate Risk

"Interest rate risk" is the probability of loss due to changes in interest rates depending on the Group's position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the date of financial position to the repricing date:

| | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | Over 5 years | Non interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2011** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with Central Bank | - | - | - | - | - | - | 205,284 | 205,284 |
| Deposits with other banks and financial institutions | 100,340 | 2,193 | - | - | - | - | 5,009 | 107,542 |
| Reserve deposits at Central Bank | - | - | - | - | - | - | 98,457 | 98,457 |
| Trading securities | 50 | - | - | - | 179 | 175 | 1,009 | 1,413 |
| Derivative financial instruments | 10,274 | 3,391 | 3,448 | 7,308 | - | - | - | 24,421 |
| Loans and advances | 1,192,003 | 243,608 | 206,794 | 241,049 | 503,959 | 80,729 | 18,578 | 2,486,720 |
| Investment securities | 28,554 | 148,274 | 60,469 | 26,819 | 72,760 | 12,682 | 660 | 350,218 |
| Assets held for sale | - | - | - | - | - | - | 13,811 | 13,811 |
| Property and equipment | - | - | - | - | - | - | 80,013 | 80,013 |
| Intangible assets | - | - | - | - | - | - | 1,532 | 1,532 |
| Deferred tax assets | - | - | - | - | - | - | 8,756 | 8,756 |
| Other assets | - | - | - | - | - | - | 105,227 | 105,227 |
| **Total assets** | **1,331,221** | **397,466** | **270,711** | **275,176** | **576,898** | **93,586** | **538,336** | **3,483,394** |
| **Liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | - | - | 172 | 172 |
| Deposits from customers | 1,510,983 | 698,632 | 68,429 | 23,469 | 2 | - | 154,868 | 2,456,383 |
| Other money market deposits | 126,255 | - | - | - | - | - | - | 126,255 |
| Derivative financial instruments | 11,763 | 3,855 | 3,865 | 7,630 | - | - | - | 27,113 |
| Funds borrowed | 38,427 | 83,019 | 60,806 | 52,472 | 7,015 | - | - | 241,739 |
| Other liabilities | - | - | - | - | - | - | 101,805 | 101,805 |
| Provisions | - | - | - | - | - | - | 8,099 | 8,099 |
| **Total liabilities** | **1,687,428** | **785,506** | **133,100** | **83,571** | **7,017** | **-** | **264,944** | **2,961,566** |
| **Interest sensitivity gap** | **(356,207)** | **(388,040)** | **137,611** | **191,605** | **569,881** | **93,586** | **273,392** | **521,828** |
| **As at 31 December 2010** | | | | | | | | |
| **Total assets** | **1,074,278** | **336,354** | **149,576** | **128,503** | **443,095** | **101,057** | **325,455** | **2,558,318** |
| **Total liabilities** | **1,363,520** | **406,114** | **31,644** | **32,762** | **6,794** | **-** | **218,464** | **2,059,298** |
| **Interest sensitivity gap** | **(289,242)** | **(69,760)** | **117,932** | **95,741** | **436,301** | **101,057** | **106,991** | **499,020** |

The following table indicates the effective interest rates by major currencies for the major components of statement of financial position for 2011 and 2010:

| **31 December 2011** | **EURO %** | **US Dollar %** | **Other currencies %** | **TL %** |
|---|---|---|---|---|
| Cash and balances with Central Bank | - | - | - | - |
| Deposits with other banks | 1.00 | 0.67 | - | 13.59 |
| Loans and advances to customers | 7.06 | 7.05 | 8.60 | 15.47 |
| Investment securities | 4.62 | 5.48 | - | 6.59 |
| | | | | |
| Deposits from banks | - | - | - | - |
| Deposits from customers | 5.04 | 5.18 | 4.02 | 11.78 |
| Obligations under repurchase agreements | - | - | - | 7.94 |
| Funds borrowed | 4.49 | 2.83 | - | 7.48 |

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

| 31 December 2010 | EURO % | US Dollar % | Other currencies % | TL % |
|---|---|---|---|---|
| Cash and balances with Central Bank | - | - | - | - |
| Deposits with other banks | 0.35 | 0.34 | - | 7.79 |
| Loans and advances to customers | 5.98 | 5.52 | 7.93 | 11.78 |
| Investment securities | - | 5.35 | - | 5.45 |
| Deposits from banks | - | - | - | - |
| Deposits from customers | 2.81 | 3.02 | 2.88 | 9.19 |
| Obligations under repurchase agreements | - | - | - | 6.63 |
| Funds borrowed | 3.53 | 1.94 | - | 7.73 |

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011. The sensivity of equity is calculated by revaluing available for sale financial assets at 31 December 2011 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2010. The following tables also include the sensitivity of trading portfolio of the Group.

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **31 December 2011** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | (18) | 18 | (18) | 18 |
| Available for sale financial assets | - | - | (2,622) | 2,656 |
| Floating rate financial liabilities | (5) | 4 | (5) | 4 |
| **Total, net** | **(23)** | **22** | **(2,645)** | **2,678** |

| | Profit or loss | | Equity (*) | |
|---|---|---|---|---|
| **31 December 2010** | **100 bp increase** | **100 bp decrease** | **100 bp increase** | **100 bp decrease** |
| Financial assets designated at fair value through profit or loss | (17) | 17 | (17) | 17 |
| Available for sale financial assets | - | - | (1,828) | 1,853 |
| Floating rate financial liabilities | (26) | 24 | (26) | 24 |
| **Total, net** | **(43)** | **41** | **(1,871)** | **1,894** |

(*) Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

### Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

## 4. FINANCIAL RISK MANAGEMENT (continued)

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years 2008, 2009 and 2010. The amount calculated as TL 23,946 as at 31 December 2011 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 299,319.

### Capital Adequacy

BRSA sets and monitors capital requirements for the Parent Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiary; Tekstil Yatırım is supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations. In implementing current capital requirements BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analysed into two tiers:

– Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.

– Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances (or portfolio provisions) and the element of the fair value reserve relating to unrealised gains on securities classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

**(Currency – In thousands of Turkish Lira (TL))**

## 4. FINANCIAL RISK MANAGEMENT (continued)

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2011 is as follows:

| 31 December 2011 | Consolidated | Bank Only |
|---|---|---|
| Amount subject to credit risk (I) | 2,945,225 | 2,947,737 |
| Amount subject to market risk (II) | 39,988 | 39,263 |
| Amount subject to operational risk (III) | 299,319 | 293,344 |
| **Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)** | **3,284,532** | **3,280,344** |
| **Shareholders' equity** | **523,313** | **520,259** |
| **Shareholders' equity / (IV)** | **15.9%** | **15.9%** |
| | | |
| Tier 1 Capital | 496,265 | 493,202 |
| Tier 2 Capital | 28,930 | 28,939 |
| Deductions from Capital | (1,882) | (1,882) |
| Total Regulatory Capital | 523,313 | 520,259 |
| | | |
| Risk-weighted assets and value at market risk (*) | 3,284,532 | 3,280,344 |
| | | |
| **Total regulatory capital expressed as a percentage of total risk-weighted assets and value at market risk** | **15.9%** | **15.9%** |
| | | |
| **Total tier 1 capital expressed as a percentage of risk-weighted assets and value at market risk** | **15.1%** | **15.0%** |

(*) Including operational risk

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements at other than fair values.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Financial assets** | | | | |
| Loans and advances | 2,486,720 | 1,857,491 | 2,457,530 | 1,867,089 |
| | **2,486,720** | **1,857,491** | **2,457,530** | **1,867,089** |
| **Financial liabilities** | | | | |
| Deposits from other banks | 172 | 8,054 | 172 | 8,054 |
| Deposits from customers | 2,456,383 | 1,774,693 | 2,455,992 | 1,776,499 |
| Funds borrowed | 241,739 | 67,328 | 241,511 | 68,100 |
| | **2,698,294** | **1,850,075** | **2,697,675** | **1,852,653** |

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### Loans and Advances

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

### Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central Bank, deposits with banks, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

### Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group’s market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

**(Currency – In thousands of Turkish Lira (TL))**

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as at 31 December 2011 and 2010, is given in the tables below:

| | 31 December 2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Trading securities | | | | |
| Eurobonds issued by the Turkish government | 404 | - | - | 404 |
| Equity securities | 375 | - | - | 375 |
| Other securities | - | 634 | - | 634 |
| Investment securities - available for sale | | | | |
| Equity securities | 660 | - | - | 660 |
| Turkish government bonds | 319,924 | - | - | 319,924 |
| Eurobonds issued by Turkish government | 12,708 | - | - | 12,708 |
| Other debt securities | - | - | 16,926 | 16,926 |
| Derivative financial instruments | - | 24,421 | - | 24,421 |
| Other equity participations | - | - | 42 | 42 |
| **Total assets carried at fair value** | **334,071** | **25,055** | **16,968** | **376,094** |
| Derivative financial instruments | - | 27,113 | - | 27,113 |
| **Total liabilities carried at fair value** | **-** | **27,113** | **-** | **27,113** |

| | 31 December 2010 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Trading securities | | | | |
| Turkish government bonds and treasury bills | 13 | - | - | 13 |
| Eurobonds issued by the Turkish government | 347 | - | - | 347 |
| Investment securities - available for sale | | | | |
| Equity securities | 371 | - | - | 371 |
| Turkish government bonds | 296,828 | - | - | 296,828 |
| Eurobonds issued by Turkish government | 10,746 | - | - | 10,746 |
| Other debt securities | - | - | 15,418 | 15,418 |
| Derivative financial instruments | - | 4,451 | - | 4,451 |
| Other equity participations | - | - | 48 | 48 |
| **Total assets carried at fair value** | **308,305** | **4,451** | **15,466** | **328,222** |
| Derivative financial instruments | - | 6,935 | - | 6,935 |
| **Total liabilities carried at fair value** | **-** | **6,935** | **-** | **6,935** |

(Currency – In thousands of Turkish Lira (TL))

## 6. CASH AND CASH EQUIVALENTS

| | 2011 | 2010 |
|---|---|---|
| Cash on hand | 28,358 | 21,057 |
| Balances with Central Bank | 176,926 | 97,618 |
| **Cash and balances with central banks** | **205,284** | **118,675** |
| **Deposits with other banks and financial institutions** | **107,542** | **76,144** |
| **Cash and cash equivalents in the statement of financial position** | **312,826** | **194,819** |
| Less: Income accrual | (23) | (2) |
| **Cash and cash equivalents in the statement of cash flows** | **312,803** | **194,817** |

As at 31 December 2011 and 2010, deposits and placements due from are as follows:

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |
| Balances with Central Bank | 82,371 | 94,555 | - | - | 76,528 | 21,090 | - | - |
| Deposits with other banks and financial institutions | 10,162 | 97,380 | 12.8 | 0.2 – 6.5 | 105 | 76,039 | - | 0.4 - 0.6 |
| **Total** | **92,533** | **191,935** | | | **76,633** | **97,129** | | |

## 7. RESERVE DEPOSITS AT THE CENTRAL BANK

| | 2011 | 2010 |
|---|---|---|
| Foreign currency | 98,457 | 56,250 |
| **Total** | **98,457** | **56,250** |

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.

As at 31 December 2011, reserve deposit rates applicable for Turkish Lira liability accounts are as follows:

| TL Liabilities | Required Reserve Ratio (%) |
|---|---|
| Demand deposits, notice deposits, private current accounts | 11 |
| Deposits/participation accounts up to 1 month maturity | 11 |
| Deposits/participation accounts up to 3 months maturity | 11 |
| Deposits/participation accounts up to 6 months maturity | 8 |
| Deposits/participation accounts up to 1 year maturity | 6 |
| Deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts | 5 |
| Special funds | Ratios corresponding to maturities |
| TL other liabilities accounts up to 1 year maturity (including 1 year) | 11 |
| TL other liabilities accounts up to 3 years maturity (including 3 years) | 8 |
| TL other liabilities longer than 3 years maturity | 5 |

**(Currency – In thousands of Turkish Lira (TL))**

## 7. RESERVE DEPOSITS AT THE CENTRAL BANK (continued)

As at 31 December 2011, reserve deposit rates applicable for foreign currency liability accounts are as follows:

| Foreign Currency Liabilities | Required Reserve Ratio (%) |
|---|---|
| FC demand deposits, notice deposits, foreign currency private current accounts | 11 |
| FC Deposits/participation accounts up to 1 month maturity | 11 |
| FC Deposits/participation accounts up to 3 month maturity | 11 |
| FC Deposits/participation accounts up to 6 month maturity | 11 |
| FC Deposits/participation accounts up to 1 year maturity | 11 |
| FC deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts | 9 |
| Special funds | Ratios corresponding to maturities |
| Other foreign currency accounts up to 1 year maturity (including 1 year) | 11 |
| Other foreign currency accounts up to 3 years maturity (including 3 years) | 9 |
| Other foreign currency accounts longer than 3 years maturity | 6 |

As at 31 December 2011 and 2010, no interest is applied for reserve deposit balances by the Central Bank.

## 8. TRADING SECURITIES

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Amount** | **Effective Interest Rate (%)** | **Amount** | **Effective Interest Rate (%)** |
| **Debt instruments** | | | | |
| Turkish government bonds | - | - | 13 | 6.5-7.2 |
| Eurobonds issued by the Turkish government | 404 | 4.3-7.1 | 347 | 1.5-6.0 |
| **Other instruments** | | | | |
| Equity securities | 375 | - | - | - |
| Mutual funds | 634 | - | - | - |
| **Total trading securities** | **1,413** | | **360** | |

Trading debt securities have fixed rates.

As at 31 December 2011 and 2010, none of the trading securities are kept as collateral or guarantee.

## 9. INVESTMENT SECURITIES

### Available for Sale Securities

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Amount** | **Effective Interest Rate (%)** | **Amount** | **Effective Interest Rate (%)** |
| **Equity instruments** | | | | |
| Equity securities | 660 | - | 371 | - |
| **Debt instruments** | | | | |
| Turkish government bonds | 319,924 | 2.5 – 17.4 | 296,828 | 2.5 – 17.4 |
| Eurobonds issued by Turkish government | 12,708 | 4.8 – 6.4 | 10,746 | 6.4 |
| Other debt securities | 16,926 | 6.0 – 12.1 | 15,418 | 6.3 – 10.3 |
| **Total available for sale securities at fair value** | **350,218** | | **323,363** | |

**(Currency – In thousands of Turkish Lira (TL))**

## 9. INVESTMENT SECURITIES (continued)

As at 31 December 2011, TL 224,103 (2010 – TL 267,223) of available for sale securities have floating interest rates and the remaining portion has fixed rates.

The movement in available for sale securities is summarized as follows:

| Available for Sale Securities | 2011 | 2010 |
|---|---|---|
| At 1 January | 323,363 | 230,442 |
| Foreign exchange differences | 4,189 | 489 |
| Purchases | 219,040 | 178,103 |
| Disposals (sale or redemption) | (196,374) | (85,671) |
| **At 31 December** | **350,218** | **323,363** |

As at 31 December 2011, TL 39,020 (2010 – TL 65,019) of available-for-sale securities is kept as a guarantee for stock exchange and other money market operations.

As at 31 December 2011 and 2010, certain portion of available for sale securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

| | 2011 | 2010 |
|---|---|---|
| Carrying value of securities pledged under repurchase agreements | 129,268 | 149,887 |
| Carrying value of liabilities of such securities | 126,255 | 143,166 |

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise:

| | 2011 | 2010 |
|---|---|---|
| Derecognition of available-for-sale securities | 144 | 142 |
| | **144** | **142** |

### Held to Maturity Securities

As at 31 December 2011 and 2010, there are no securities classified under held to maturity portfolio. The Bank has sold a significant portion of its securities classified in held to maturity portfolio before the maturity dates of such securities in year 2009. For this reason, the Group cannot classify its financial assets as held to maturity securities until 1 January 2012.

(Currency – In thousands of Turkish Lira (TL))

## 10. LOANS AND ADVANCES

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amount | | | | Effective interest rate (%) | | |
| | Turkish Lira | Foreign Currency | Foreign Currency Indexed | Total | Turkish Lira | Foreign Currency | Foreign Currency Indexed |
| Corporate loans | 1,322,661 | 515,954 | 292,148 | 2,130,763 | 10.0-33.4 | 0.8-15.8 | 4.2-13.3 |
| Consumer loans | 295,491 | - | 14,148 | 309,639 | 2.7-25.5 | - | 4.9-10.2 |
| Credit cards | 27,235 | 505 | - | 27,740 | 34.0 | - | - |
| Total loans | 1,645,387 | 516,459 | 306,296 | 2,468,142 | | | |
| Loans under follow-up | 107,171 | - | - | 107,171 | | | |
| Less: Allowance for losses on loans and advances | (88,593) | - | - | (88,593) | | | |
| **Total** | **1,663,965** | **516,459** | **306,296** | **2,486,720** | | | |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amount | | | | Effective interest rate (%) | | |
| | Turkish Lira | Foreign Currency | Foreign Currency Indexed | Total | Turkish Lira | Foreign Currency | Foreign Currency Indexed |
| Corporate loans | 942,325 | 382,087 | 245,017 | 1,569,429 | 7.8-33.2 | 0.6-14.4 | 2.0-12.5 |
| Consumer loans | 220,079 | - | 18,892 | 238,971 | 2.6-28.2 | - | 4.5-11.2 |
| Credit cards | 28,915 | 495 | - | 29,410 | 34.0 | - | - |
| Total loans | 1,191,319 | 382,582 | 263,909 | 1,837,810 | | | |
| Loans under follow-up | 93,965 | - | - | 93,965 | | | |
| Less: Allowance for losses on loans and advances | (74,284) | - | - | (74,284) | | | |
| **Total** | **1,211,000** | **382,582** | **263,909** | **1,857,491** | | | |

The portfolio reserve amounting to TL 23,755 (2010 – TL 15,538) for impairment is provided based on past experience, management's assessments of the current economic conditions and the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

| **Movements in the allowance for impairment** | **2011** | **2010** |
|---|---|---|
| Allowance at beginning of year | 74,284 | 64,215 |
| Charge for the year | 21,610 | 20,868 |
| Recoveries | (7,226) | (10,668) |
| Provision net of recoveries | 14,384 | 10,200 |
| Loans written off during the year | (75) | (131) |
| Allowance at end of year | **88,593** | **74,284** |

As at 31 December 2011, loans and advances on which interest is not being accrued, or where interest is suspended amounted to TL 107,171 (2010 – TL 93,965).

As at 31 December 2011, TL 828,749 (2010 – TL 506,932) of loans and advances have floating interest rates and the remaining portion has fixed rates.

(Currency – In thousands of Turkish Lira (TL))

## 11. ASSETS HELD FOR SALE

Assets held for sale comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale.

| | 2011 | 2010 |
|---|---|---|
| Opening balance at 1 January | 12,467 | 18,287 |
| Additions | 7,872 | 7,593 |
| Disposals, net | (6,136) | (13,099) |
| Net (charge) / reversal of provision for impairment | 157 | - |
| Depreciation | (549) | (314) |
| Closing balance at 31 December | **13,811** | **12,467** |

As at 31 December 2011, the impairment on assets held for sale, which is based on independent appraisal reports, is amounted to TL 1,289 (2010 – TL 1,841).

## 12. PROPERTY AND EQUIPMENT

| | Buildings | Furniture and Office Equipment | Leased Assets | Motor Vehicles | Total |
|---|---|---|---|---|---|
| At 1 January 2011 | | | | | |
| Net of accumulated depreciation and impairment | 72,406 | 4,180 | 499 | 61 | 77,146 |
| Additions | - | 2,024 | - | 37 | 2,061 |
| Disposals, net (**) | - | (28) | (1) | - | (29) |
| Revaluation and impairment, net | 4,484 | - | - | - | 4,484 |
| Depreciation charge for the year | (1,460) | (1,748) | (379) | (62) | (3,649) |
| **At 31 December 2011, net of accumulated depreciation and impairment** | **75,430** | **4,428** | **119** | **36** | **80,013** |
| **At 1 January 2011** | | | | | |
| Cost | 76,002 | 33,377 | 7,874 | 810 | 118,063 |
| Revaluation and impairment, net (*) | 14,648 | - | - | - | 14,648 |
| Accumulated depreciation | (18,244) | (29,197) | (7,375) | (749) | (55,565) |
| **Net carrying amount** | **72,406** | **4,180** | **499** | **61** | **77,146** |
| **At 31 December 2011** | | | | | |
| Cost | 76,002 | 28,044 | 6,755 | 705 | 111,506 |
| Revaluation and impairment, net (*) | 19,132 | - | - | - | 19,132 |
| Accumulated depreciation | (19,704) | (23,616) | (6,636) | (669) | (50,625) |
| **Net carrying amount** | **75,430** | **4,428** | **119** | **36** | **80,013** |

(*) As at 31 December 2011, there is TL 19,831 revaluation surplus and TL 699 impairment on buildings (2010 – TL 15,347 and TL 699, respectively).

(**) The cost and accumulated depreciation of disposed assets as at 31 December 2011 are as follows:

| At 31 December 2011 | Buildings | Furniture and Office Equipment | Leased Assets | Motor Vehicles | Total |
|---|---|---|---|---|---|
| Cost | - | 7,357 | 1,119 | 142 | 8,618 |
| Accumulated depreciation (-) | - | 7,329 | 1,118 | 142 | 8,589 |
| Net disposal amount | - | 28 | 1 | - | 29 |

**(Currency – In thousands of Turkish Lira (TL))**

## 12. PROPERTY AND EQUIPMENT (continued)

| | Buildings | Furniture and Office Equipment | Leased Assets | Motor Vehicles | Total |
|---|---|---|---|---|---|
| At 1 January 2010 | | | | | |
| Net of accumulated depreciation and impairment | 63,864 | 5,896 | 1,307 | 147 | 71,214 |
| Additions | 17 | 333 | - | - | 350 |
| Disposals, net (*) | - | (91) | (16) | - | (107) |
| Revaluation and impairment, net | 10,055 | - | - | - | 10,055 |
| Depreciation charge for the year | (1,530) | (1,958) | (792) | (86) | (4,366) |
| **At 31 December 2010, net of accumulated depreciation and impairment** | **72,406** | **4,180** | **499** | **61** | **77,146** |
| **At 1 January 2010** | | | | | |
| Cost | 75,985 | 38,356 | 8,348 | 836 | 123,525 |
| Revaluation and impairment, net | 4,593 | - | - | - | 4,593 |
| Accumulated depreciation | (16,714) | (32,460) | (7,041) | (689) | (56,904) |
| **Net carrying amount** | **63,864** | **5,896** | **1,307** | **147** | **71,214** |
| **At 31 December 2010** | | | | | |
| Cost | 76,002 | 33,377 | 7,874 | 810 | 118,063 |
| Revaluation and impairment, net | 14,648 | - | - | - | 14,648 |
| Accumulated depreciation | (18,244) | (29,197) | (7,375) | (749) | (55,565) |
| **Net carrying amount** | **72,406** | **4,180** | **499** | **61** | **77,146** |

(*) The cost and accumulated depreciation of disposed assets as at 31 December 2011 are as follows:

| At 31 December 2010 | Buildings | Furniture and Office Equipment | Leased Assets | Motor Vehicles | Total |
|---|---|---|---|---|---|
| Cost | - | 5,312 | 474 | 26 | 5,812 |
| Accumulated depreciation (-) | - | 5,221 | 458 | 26 | 5,705 |
| Net disposal amount | - | 91 | 16 | - | 107 |

## 13. INTANGIBLE ASSETS

| Software Licenses and Other | 2011 | 2010 |
|---|---|---|
| Beginning of the year, net of accumulated amortization | 1,667 | 2,048 |
| Additions | 180 | 125 |
| Disposals, net | - | - |
| Amortization charge for the year | (315) | (506) |
| **At the end of the year, net of accumulated amortization** | **1,532** | **1,667** |
| **At beginning of the year** | | |
| Cost | 17,778 | 17,660 |
| Accumulated amortization | (16,111) | (15,612) |
| **Net carrying amount** | **1,667** | **2,048** |
| **At end of the year** | | |
| Cost | 17,958 | 17,778 |
| Accumulated amortization | (16,426) | (16,111) |
| **Net carrying amount** | **1,532** | **1,667** |

**(Currency – In thousands of Turkish Lira (TL))**

## 14. OTHER ASSETS

| | 2011 | 2010 |
|---|---|---|
| Collaterals given | 52,801 | 2,935 |
| Transitory receivables | 44,535 | 16,429 |
| Payments for mutual funds | 1,922 | 617 |
| Prepaid expenses | 1,306 | 1,082 |
| Office supply inventory | 469 | 466 |
| Receivables from credit cards and debit cards | 341 | 1,344 |
| Other equity participations (*) | 42 | 48 |
| Others | 3,811 | 3,290 |
| | **105,227** | **26,211** |

(*) As at 31 December 2011, TL 66 (2010 – TL 60) provision has been provided for impairment on equity participations.

## 15. DEPOSITS

### Deposits from Banks

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| Demand | 28 | 144 | - | - | 37 | 8,017 | - | - |
| Time | - | - | - | - | - | - | - | - |
| **Total** | **28** | **144** | | | **37** | **8,017** | | |

### Deposits from Customers

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| **Saving** | | | | | | | | |
| Demand | 17,138 | 12,381 | - | - | 9,724 | 15,007 | - | - |
| Time | 825,825 | 599,178 | 3.7 – 13.9 | 0.9 – 6.3 | 633,007 | 406,703 | 4.1 – 10.1 | 0.3 – 4.0 |
| | **842,963** | **611,559** | | | **642,731** | **421,710** | | |
| **Commercial and other** | | | | | | | | |
| Demand | 79,762 | 45,587 | - | - | 68,786 | 57,771 | - | - |
| Time | 431,920 | 444,592 | 3.6 – 13.9 | 0.2 – 6.3 | 352,159 | 231,536 | 5.1 – 10.0 | 0.2 – 3.8 |
| | **511,682** | **490,179** | | | **420,945** | **289,307** | | |
| **Total** | **1,354,645** | **1,101,738** | | | **1,063,676** | **711,017** | | |

**(Currency – In thousands of Turkish Lira (TL))**

## 15. DEPOSITS (continued)

### Other Money Market Deposits

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency | Turkish Lira | Foreign currency |
| Obligations under repurchase agreements: | | | | | | | | |
| -Due to customers | 264 | - | 7.0 | - | 203 | - | 5.5 | - |
| -Due to banks & mutual funds | 125,991 | - | 5.8 - 10.9 | - | 142,963 | - | 5.1-7.4 | - |
| **Total** | **126,255** | **-** | | | **143,166** | **-** | | |

## 16. FUNDS BORROWED

| | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amount | | Effective interest rate (%) | | Amount | | Effective interest rate (%) | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |
| **Short term (*)** | | | | | | | | |
| Fixed interest | 29,214 | 64,545 | 5.6-8.9 | 1.6-4.5 | 16,947 | 26,546 | 6.4-9.0 | 1.7-4.5 |
| Floating interest (**) | - | 72,474 | - | 2.0-4.2 | - | - | - | - |
| **Medium/long term (*)** | | | | | | | | |
| Fixed interest | 7,598 | 63,158 | 7.3-9.1 | 2.9-4.8 | - | 5,171 | - | 3.2-4.2 |
| Floating interest (**) | - | 4,750 | - | 0.7-0.9 | - | 18,662 | - | 0.6-2.2 |
| **Finance lease** | - | - | | | - | 2 | - | - |
| **Total** | **36,812** | **204,927** | | | **16,947** | **50,381** | | |

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

(**) Floating rate borrowings bear interest at rates fixed in advance for period of mostly 6 months.

Repayments of medium/long term borrowing are as follows:

| | 2011 | 2010 |
|---|---|---|
| 2011 | - | 17,116 |
| 2012 | 64,697 | 6,717 |
| 2013 | 10,809 | - |
| **Total** | **75,506** | **23,833** |

The Group did not have any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2011 (2010 – none).

### Finance Leases:

The Group had finance lease obligations amounting to TL 2 as at 31 December 2010. Such liabilities were maturing within 1 year and have been paid in 2011. As at 31 December 2011 the Group has no finance lease obligations.

**(Currency – In thousands of Turkish Lira (TL))**

## 17. OTHER LIABILITIES AND PROVISIONS

| | 2011 | 2010 |
|---|---|---|
| **Other liabilities** | | |
| Transfer orders | 62,734 | 30,095 |
| Taxes and funds payable | 7,114 | 4,739 |
| Transitory payables | 5,755 | 6,018 |
| Blocked checks and other blockage items | 1,674 | 745 |
| Payables for credit card settlements | 1,045 | 4,940 |
| Advances taken | 152 | 118 |
| Others | 19,005 | 2,982 |
| | **97,479** | **49,637** |
| **Provisions** | | |
| Employee termination benefits | 3,283 | 2,678 |
| Employee vacation pay liability | 2,889 | 2,724 |
| Provisions against law suits (*) | 1,927 | 1,436 |
| | **8,099** | **6,838** |
| **Total** | **105,578** | **56,475** |

(*) As at 31 December 2011, the Group has provided TL 1,927 provision due certain lawsuits filed against the Bank (2010 – TL 1,436).

### Employee Termination Benefits

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

| | 2011 | 2010 |
|---|---|---|
| At 1 January | 2,678 | 2,144 |
| Interest cost | 194 | 105 |
| Effects of change in actuarial assumptions | 1,026 | 1,302 |
| Paid during the year | (991) | (1,199) |
| Current service cost | 376 | 326 |
| **At 31 December** | **3,283** | **2,678** |

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.73 and TL 2.52 at 31 December 2011 and 2010, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2011 and 2010, the Group reflected a liability calculated using the Projected Unit Credit 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 at the date of financial position.

The annual ceiling has been increased to TL 2.81 effective 1 January 2012.

**(Currency – In thousands of Turkish Lira (TL))**

## 17. OTHER LIABILITIES AND PROVISIONS (continued)

The principal actuarial assumptions used at the dates of financial position are as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate (net of expected rates of salary increase) | 2.99 | 4.66 |
| Expected rates of salary/limit increases | 5.60 | 5.10 |

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognized in the consolidated statement of comprehensive income in the period they occur.

## 18. INCOME TAXES

### General Information

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

In Turkey, corporate tax rate is 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end date of financial position and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus 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.

The Bank and its subsidiary Tekstil Yatırım are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2011 and 2010 are:

| | 2011 | 2010 |
|---|---|---|
| **Consolidated statement of comprehensive income** | | |
| *Current income tax expense* | 9,366 | 6,211 |
| *Deferred income tax income* | | |
| Relating to origination and reversal of temporary differences | (4,861) | (1,850) |
| **Income tax expense reported in consolidated statement of comprehensive income** | **4,505** | **4,361** |

**(Currency – In thousands of Turkish Lira (TL))**

## 18. INCOME TAXES (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2011 and 2010 is as follows:

| | 2011 | 2010 |
|---|---|---|
| **Profit before Income Tax** | 28,406 | 20,865 |
| At Turkish statutory income tax rate of 20% | 5,681 | 4,173 |
| Effect of different tax rate | - | 67 |
| Tax exempt income | (1,861) | (181) |
| Non-deductible expenses | 706 | 272 |
| Valuation allowance (differences for which no deferred tax accounted) | (218) | 89 |
| Others, net | 197 | (59) |
| **Income tax expense** | **4,505** | **4,361** |

### Deferred Income Tax

Deferred income tax at 31 December relates to the following:

| | Consolidated Statement of Financial Position | | Recognized under Statement of Comprehensive Income & Equity | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Deferred income tax liabilities** | | | | |
| Valuation and depreciation differences of property and equipment | 847 | 611 | (236) | (499) |
| Valuation differences of securities | 180 | 206 | 26 | (206) |
| **Gross deferred income tax liabilities** | **1,027** | **817** | **(210)** | **(705)** |
| **Deferred income tax assets** | | | | |
| Liability for defined benefit plans and unused vacation pay liability | 1,235 | 998 | 237 | 113 |
| Reserve for loan losses | 4,069 | 2,476 | 1,593 | 1,544 |
| Valuation differences of securities | 78 | - | 78 | (736) |
| Valuation differences of derivatives | 3,192 | 497 | 2,695 | 387 |
| Others | 1,209 | 939 | 270 | 535 |
| **Gross deferred income tax assets** | **9,783** | **4,910** | **4,873** | **1,843** |
| **Deferred income taxes, net** | **8,756** | **4,093** | **4,663** | **1,138** |

As at 31 December 2011, the Group has not recognized deferred tax liabilities amounting to TL 218 (2010 – TL 243, deferred tax assets) since it is not probable that future taxable profit will be available against which the Group can utilise the benefits thereafter in accordance with the business plan for the coming years.

**(Currency – In thousands of Turkish Lira (TL))**

## 18. INCOME TAXES (continued)

Movement of net deferred tax liability/asset can be presented as follows:

| | 2011 | 2010 |
|---|---|---|
| Deferred tax asset, net at 1 January | 4,093 | 2,955 |
| Deferred income tax recognized under profit or loss | 4,861 | 1,850 |
| Deferred income tax recognized under shareholders' equity (*) | (198) | (712) |
| **Deferred tax asset, net at 31 December** | **8,756** | **4,093** |

(*) The change in deferred tax liability of TL 198, recognized under shareholders' equity, consists of TL 224 resulting from the revaluation surplus on buildings and TL (26) resulting from valuation differences of securities. Additionally, TL 1,864 reversal of income tax expense, resulting from gain on securities, is recognized under shareholders' equity.

### Current Income Tax Payable

Income tax payable at 31 December relates to the following:

| | 2011 | 2010 |
|---|---|---|
| Current income tax charge | 7,492 | 8,044 |
| Prepaid income taxes | (3,166) | (5,397) |
| **Income tax payable, net at 31 December** | **4,326** | **2,647** |

## 19. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards, swaps, futures and options.

The table below shows the favorable (assets) and unfavorable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Fair value assets | Fair value liabilities | Fair value assets | Fair value liabilities |
| **Derivatives held for trading** | | | | |
| Forward currency purchases and sales | 867 | 3,923 | 645 | 1,224 |
| Currency swap purchases and sales | 2,782 | 1,667 | 163 | 2,075 |
| Options purchases and sales | 20,772 | 21,523 | 3,643 | 3,636 |
| **Total** | **24,421** | **27,113** | **4,451** | **6,935** |

*Derivative financial instruments held for trading purposes:*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the date of financial position. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

**(Currency – In thousands of Turkish Lira (TL))**

## 19. DERIVATIVES (continued)

*Derivative financial instruments held for trading purposes:*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the date of financial position. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

As at 31 December 2011 and 2010, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

The table below shows the the notional amounts of derivative instruments analyzed by currency:

| **31 December 2011** | **Turkish Lira** | **US Dollars** | **Euro** | **Others** | **Total** |
|---|---|---|---|---|---|
| Purchases | | | | | |
| Currency forwards | 78,264 | 78,122 | 34,002 | 13,364 | 203,752 |
| Currency swaps | 85,976 | 237,657 | 164,766 | 3,873 | 492,272 |
| Currency options | 227,704 | 189,225 | 65,179 | 97,557 | 579,665 |
| Sales | | | | | |
| Currency forwards | 98,052 | 93,164 | 12,950 | 3,373 | 207,539 |
| Currency swaps | 205,094 | 228,913 | 19,674 | 36,637 | 490,318 |
| Currency options | 213,398 | 195,810 | 65,179 | 105,963 | 580,350 |
| Total of purchases | 391,944 | 505,004 | 263,947 | 114,794 | 1,275,689 |
| Total of sales | 516,544 | 517,887 | 97,803 | 145,973 | 1,278,207 |
| **Net notional position** | **(124,600)** | **(12,883)** | **166,144** | **(31,179)** | **(2,518)** |

| **31 December 2010** | **Turkish Lira** | **US Dollars** | **Euro** | **Others** | **Total** |
|---|---|---|---|---|---|
| Purchases | | | | | |
| Currency forwards | 36,024 | 94,064 | 47,820 | 4,013 | 181,921 |
| Currency swaps | 80,248 | 40,718 | 34,200 | 11,684 | 166,850 |
| Currency options | 175,717 | 161,904 | 28,174 | 4,221 | 370,016 |
| Sales | | | | | |
| Currency forwards | 58,083 | 80,466 | 42,364 | 1,620 | 182,533 |
| Currency swaps | 2,248 | 68,645 | 56,834 | 40,937 | 168,664 |
| Currency options | 169,698 | 168,007 | 28,175 | 4,220 | 370,100 |
| Total of purchases | 291,989 | 296,686 | 110,194 | 19,918 | 718,787 |
| Total of sales | 230,029 | 317,118 | 127,373 | 46,777 | 721,297 |
| **Net notional position** | **61,960** | **(20,432)** | **(17,179)** | **(26,859)** | **(2,510)** |

**(Currency – In thousands of Turkish Lira (TL))**

## 19. DERIVATIVES (continued)

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity:

| 31 December 2011 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Currency forwards: | | | | | | |
| Purchases | 130,386 | 38,094 | 34,042 | 1,230 | - | 203,752 |
| Sales | 131,964 | 38,917 | 35,299 | 1,359 | - | 207,539 |
| Currency swaps: | | | | | | |
| Purchases | 436,132 | 31,076 | 25,064 | - | - | 492,272 |
| Sales | 435,441 | 30,690 | 24,187 | - | - | 490,318 |
| Currency options: | | | | | | |
| Purchases | 201,848 | 144,864 | 65,287 | 167,666 | - | 579,665 |
| Sales | 202,473 | 144,864 | 65,286 | 167,727 | - | 580,350 |
| Total of purchases | 768,366 | 214,034 | 124,393 | 168,896 | - | 1,275,689 |
| Total of sales | 769,878 | 214,471 | 124,772 | 169,086 | - | 1,278,207 |
| **Total of transactions** | **1,538,244** | **428,505** | **249,165** | **337,982** | **-** | **2,553,896** |

| 31 December 2010 | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Over 1 year | Total |
|---|---|---|---|---|---|---|
| Currency forwards: | | | | | | |
| Purchases | 164,269 | 9,505 | 8,147 | - | - | 181,921 |
| Sales | 164,646 | 9,739 | 8,148 | - | - | 182,533 |
| Currency swaps: | | | | | | |
| Purchases | 165,726 | 1,124 | - | - | - | 166,850 |
| Sales | 167,551 | 1,113 | - | - | - | 168,664 |
| Currency options: | | | | | | |
| Purchases | 86,887 | 109,540 | 164,179 | 9,410 | - | 370,016 |
| Sales | 86,946 | 110,247 | 163,497 | 9,410 | - | 370,100 |
| Total of purchases | 416,882 | 120,169 | 172,326 | 9,410 | - | 718,787 |
| Total of sales | 419,143 | 121,099 | 171,645 | 9,410 | - | 721,297 |
| **Total of transactions** | **836,025** | **241,268** | **343,971** | **18,820** | **-** | **1,440,084** |

## 20. SHARE CAPITAL

| | 2011 | 2010 |
|---|---|---|
| **Number of common shares**, TL 0.1 (in full TL), par value (Authorized and issued) | 4,200,000,000 | 4,200,000,000 |

As at 31 December 2011 and 2010, the Bank's subscribed and issued share capital in historical terms are TL 420,000.

There is no share capital addition during the years ended 31 December 2011 and 2010.

**(Currency – In thousands of Turkish Lira (TL))**

## 20. SHARE CAPITAL (continued)

As at 31 December 2011 and 2010, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| GSD Holding A.Ş. | 317,101 | 75.50 | 317,101 | 75.50 |
| Publicly held | 102,899 | 24.50 | 102,899 | 24.50 |
| **Total** | **420,000** | **100.00** | **420,000** | **100.00** |

## 21. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Legal Reserves** | **Retained Earnings** | **Total** | **Legal Reserves** | **Retained Earnings** | **Total** |
| **At 1 January** | **4,970** | **49,245** | **54,215** | **4,293** | **33,418** | **37,711** |
| Net profit for the year | - | 23,901 | 23,901 | - | 16,504 | 16,504 |
| Transfer from retained earnings | 901 | (901) | - | 677 | (677) | - |
| **At 31 December** | **5,871** | **72,245** | **78,116** | **4,970** | **49,245** | **54,215** |

### 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.

## 22. DIVIDENDS PAID AND PROPOSED

As at 31 December 2011 and 2010, the Group did not distribute any dividends to shareholders in respect of 2010 and 2009 profits.

## 23. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from retained earnings and revaluation surplus. For the purpose of the EPS calculation, such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank are regarded similarly. Accordingly, the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares without consideration through 31 December 2011.

There is no dilution of the shares as at 31 December 2011 and 2010.

**(Currency – In thousands of Turkish Lira (TL))**

## 23. EARNINGS PER SHARE (continued)

The following reflects the income (in Kr) and share data used in the basic earnings per share computations

| | 2011 | 2010 |
|---|---|---|
| Net profit attributable to ordinary equity holders of the parents for basic earnings per share | 0.57 | 0.39 |
| Weighted average number of ordinary shares for basic earnings per share | 4,200,000,000 | 4,200,000,000 |

## 24. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by GSD Holding A.Ş. who owns 75.50% (2010 – 75.50%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

| Related Party | | Cash Loans & Due From Banks | Non-cash Loans | Deposits Taken | Notional Amount of Derivative Transactions | Interest Income | Interest Expense | Other Operating Income | Other Operating Expense |
|---|---|---|---|---|---|---|---|---|---|
| Shareholders | 2011 | - | - | 4 | - | 133 | - | 1 | 6 |
| | 2010 | - | - | 4 | - | 3 | 32 | 1 | - |
| Others (*) | 2011 | 62,454 | 4,536 | 46,693 | - | 5,089 | 5,618 | 163 | 870 |
| | 2010 | 20,578 | 7,332 | 63,650 | 20,529 | 3,883 | 3,230 | 86 | 774 |
| Directors' interests | 2011 | 86 | - | 14,007 | 7,463 | - | 823 | 1 | 5,030 |
| | 2010 | 116 | - | 11,716 | - | - | 790 | 2 | 4,509 |

(*) Others represent the shareholders and group companies of GSD Holding.

### Compensation of Key Management Personnel of the Group

For the year ended 31 December 2011, the executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL 5,030 (2010 – TL 4,509) comprising salaries and other short-term benefits.

## 25. FEE AND COMMISSION INCOME AND EXPENSE

| | 2011 | 2010 |
|---|---|---|
| **Fee and commission income** | | |
| Letters of guarantee | 9,198 | 7,322 |
| Letters of credit | 1,654 | 642 |
| **Total** | **10,852** | **7,964** |
| **Fees and commission expense** | | |
| Corresponding bank fees | 4,373 | 3,955 |
| **Total** | **4,373** | **3,955** |

**(Currency – In thousands of Turkish Lira (TL))**

## 26. INCOME FROM BANKING SERVICES

| | 2011 | 2010 |
|---|---|---|
| Income from credit cards | 3,002 | 3,645 |
| Income from fee management | 2,130 | 3,031 |
| Charges regarding account transactions | 1,323 | 1,346 |
| Charges regarding fund transfers | 1,022 | 923 |
| Income from insurance brokerage | 906 | 743 |
| Income from check transactions | 581 | 595 |
| Others | 6,187 | 4,971 |
| **Total** | **15,151** | **15,254** |

## 27. NET TRADING INCOME

| | 2011 | 2010 |
|---|---|---|
| Commissions from capital market transactions | 11,041 | 9,680 |
| Gain from derecognition of available-for-sale securities | 144 | 142 |
| Other gain/(loss) | (502) | (210) |
| **Total** | **10,683** | **9,612** |

## 28. OTHER INCOME

| | 2011 | 2010 |
|---|---|---|
| Income from sale of property, equipment and assets held for sale | 2,406 | 1,113 |
| Collections from loans written off in prior years | 2,186 | 1,178 |
| Others | 1,471 | 1,609 |
| **Total** | **6,063** | **3,900** |

## 29. SALARIES AND EMPLOYEE BENEFITS

| | 2011 | 2010 |
|---|---|---|
| **Personnel expenses** | | |
| Wages and salaries | 48,335 | 46,671 |
| Other fringe benefits | 9,696 | 7,516 |
| Cost of defined contribution plan (employers' share of social security premiums) | 5,623 | 5,257 |
| Provision for employee termination benefits and unused vacation pay liability | 770 | 736 |
| **Total** | **64,424** | **60,180** |

As at 31 December 2011, the Bank has 44 branches located close to industrial zones of Turkey (2010 – 44 branches).

**(Currency – In thousands of Turkish Lira (TL))**

## 29. SALARIES AND EMPLOYEE BENEFITS (continued)

As at 31 December 2011 and 2010, the number of employees is:

| | 2011 | 2010 |
|---|---|---|
| The Bank | 880 | 903 |
| Subsidiaries | 51 | 61 |
| **Total** | **931** | **964** |

## 30. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Rent expenses | 9,666 | 8,829 |
| Communication expenses | 2,863 | 2,811 |
| Transportation expenses | 2,102 | 1,989 |
| Heating and lighting expenses | 1,647 | 1,685 |
| Maintenance expense | 1,531 | 1,410 |
| Advertising expenses | 613 | 454 |
| Insurance expenses | 577 | 765 |
| Computer expenses | 429 | 360 |
| Others | 4,306 | 4,583 |
| **Total** | **23,734** | **22,886** |

## 31. OTHER EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Translation loss transferred to profit/loss regarding disposal of foreign subsidiary | 2,287 | - |
| Saving deposit insurance fund premium | 2,279 | 2,171 |
| Provision for litigations | 1,302 | 1,436 |
| Consultancy expenses | 728 | 628 |
| Provision for impairment of buildings & assets held for sale | 290 | - |
| Loss on sale of fixed assets | 189 | 2,748 |
| Others | 1,904 | 1,652 |
| **Total** | **8,979** | **8,635** |

**(Currency – In thousands of Turkish Lira (TL))**

## 32. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

| | 2011 | 2010 |
|---|---|---|
| Letters of guarantee | 887,708 | 718,246 |
| Letters of credit | 303,685 | 147,933 |
| Acceptance credits | 7,041 | 3,169 |
| Other guarantees | 26,714 | 18,873 |
| **Total non-cash loans** | **1,225,148** | **888,221** |
| Credit card limits | 198,968 | 194,383 |
| Other commitments | 130,775 | 119,929 |
| **Total** | **1,554,891** | **1,202,533** |

### Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of between 1 and 5 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancelable operating leases.

### Litigation

(i) A customer has sued the Bank in year 1998 with the claim that his deposit money has been withdrawn from his account with forged documents. The amount is 1,299,213 Australian Dollars (equivalent to TL 2,491 as at 31 December 2011). The trial is still in progress and no provision has been provided as professional legal advice indicates that it is unlikely that any loss will arise.

(ii) In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, for those cases are provided based on management estimates and professional advice. As at 31 December 2011, TL 1,927 provision is provided against such litigation (2010 – TL 1,436).

### Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements.

The Group also manages 4 open-ended investment funds (2010 – 4 open-ended investment funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from investment funds amounted to TL 2,130 for the year ended 31 December 2011 (2010 – TL 3,031).

As at 31 December 2011, the Group had investment custody accounts amounting to TL 159,056 (2010 – TL 98,078).