

**TURKLAND BANK
ANONİM ŐİRKETİ**

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2009

To the Board of Directors and Shareholders of
Turkland Bank A.Ş.
İstanbul, Turkey

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of Turkland Bank A.Ş. which comprise the balance sheet as at December 31, 2009 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2009 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

İstanbul, March 2, 2010

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TURKLAND BANK ANONİM ŞİRKETİ
BALANCE SHEET AS AT DECEMBER 31, 2009

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

| | Notes | December 31, 2009 | December 31, 2008 |
|---|-------|----------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | 3 | 164,994 | 229,712 |
| Balances with Central Bank | 4 | 50,334 | 62,279 |
| Financial assets at fair value through profit and loss | 5 | 964 | 930 |
| Derivative financial instruments | 14 | 39 | 8 |
| Loans and receivables | 6 | 717,278 | 589,904 |
| Investment securities: | 5 | 177,730 | 100,928 |
| - Available-for-sale | | 138,521 | 71,163 |
| - Held-to-maturity | | 39,209 | 29,765 |
| Premises and equipment | 7 | 13,343 | 16,767 |
| Intangible assets | 8 | 1,702 | 2,553 |
| Deferred tax asset | 13 | 3,226 | 2,098 |
| Other assets | 9 | 11,015 | 11,624 |
| Total assets | | 1,140,625 | 1,016,803 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Customers' deposits | 10 | 840,906 | 577,431 |
| Deposits from banks | 10 | 1,044 | 456 |
| Obligations under repurchase agreements | 5 | 15 | 7 |
| Funds borrowed | 11 | 48,878 | 203,737 |
| Other liabilities and provisions | 12 | 32,108 | 26,615 |
| Total liabilities | | 922,951 | 808,246 |
| EQUITY | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital issued | 15 | 318,164 | 318,164 |
| Unrealized gains/(losses) on available-for-sale investments, net of tax | | 6,237 | 608 |
| Legal reserves | 16 | 5,249 | 5,207 |
| Accumulated losses | 16 | (111,976) | (115,422) |
| Total equity | | 217,674 | 208,557 |
| Total liabilities and equity | | 1,140,625 | 1,016,803 |

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

TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

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

| | Notes | January 1 – December 31, 2009 | January 1 – December 31, 2008 |
|--|-------|-------------------------------------|-------------------------------------|
| Interest income | 18 | 125,329 | 123,048 |
| Interest expenses | 19 | (60,944) | (71,539) |
| Net interest income | | 64,385 | 51,509 |
| Fees and commissions and other operating income | | | |
| Fees and commissions income | | 13,486 | 10,263 |
| Fees and commissions expenses | | (757) | (719) |
| Net fees and commissions income | | 12,729 | 9,544 |
| Trading income | | 6,168 | 3,815 |
| Provisions for impairment of loan receivables | | (19,776) | (7,336) |
| Foreign exchange gain / (loss) | | 4,141 | (3,374) |
| Other income | 20 | 562 | 1,752 |
| Operating expenses | 21 | (64,023) | (58,715) |
| Operating profit | | 4,186 | (2,805) |
| Dividend income | | 7 | 6 |
| Profit/ (loss) before income tax | | 4,193 | (2,799) |
| Tax reimbursement | 13 | - | 3,611 |
| Income tax – current | 13 | (3,240) | - |
| Income tax – deferred | 13 | 2,535 | 653 |
| Net profit/ (loss) from continuing operations | | 3,488 | 1,465 |
| <u>Discontinued operations:</u> | | | |
| Net income / (loss) from discontinued operations | | - | - |
| Net profit/ (loss) for the year | | 3,488 | 1,465 |
| Attributable to : | | | |
| Equity holders of the Parent | | 3,488 | 1,465 |
| Minority interest | | - | - |

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

TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009

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

| | January 1- December 31, 2009 | January 1- December 31, 2008 |
|---|---|---|
| Net profit/ (loss) for the year | 3,488 | 1,465 |
| Other comprehensive income | | |
| Fair value gains on available-for-sale financial assets, net of tax | 5,629 | 608 |
| Net change in fair values | 15,421 | 622 |
| Net amount transferred to income | (9,792) | (14) |
| Other comprehensive income for the year, net of tax | 5,629 | 608 |
| Total comprehensive income for the year | 9,117 | 2,073 |
| | | |
| Total comprehensive income attributable to equity holders of the Parent | 9,117 | 2,073 |

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

TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009

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

| | Notes | Share capital | Adjustment to share capital | Unrealized gains/(losses) on available-for-sale investments | Legal reserves | Retained earnings | Total | Minority interest | Total equity |
|--|-------|----------------|-----------------------------|---|----------------|-------------------|----------------|-------------------|----------------|
| At January 1, 2008 | | 70,000 | 148,164 | - | 5,207 | (116,887) | 106,484 | - | 106,484 |
| Capital increase | | 100,000 | - | - | - | - | 100,000 | - | 100,000 |
| Total comprehensive income for the year | | - | - | 608 | - | 1,465 | 2,073 | - | 2,073 |
| At December 31, 2008/ January 1, 2009 | | 170,000 | 148,164 | 608 | 5,207 | (115,422) | 208,557 | - | 208,557 |
| Transfer to reserves | | - | - | - | 42 | (42) | - | - | - |
| Total comprehensive income for the year | | - | - | 5,629 | - | 3,488 | 9,117 | - | 9,117 |
| At December 31, 2009 | | 170,000 | 148,164 | 6,237 | 5,249 | (111,976) | 217,674 | - | 217,674 |

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

TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

| | Notes | January 1 – December 31, 2009 | January 1 – December 31, 2008 |
|---|-------|-------------------------------------|-------------------------------------|
| Cash flow from operating activities | | | |
| Net profit/ (loss) for the year | | 3,488 | 1,465 |
| Adjustments for: | | | |
| Depreciation and amortization | 7-8 | 4,937 | 4,024 |
| Provision for losses on loans and receivables | | 19,776 | 7,336 |
| Provision for employment termination benefits | 12 | 530 | 531 |
| Other provision expenses | | 3,221 | 393 |
| (Gains)/ losses on sale of premises and equipment | | 23 | (809) |
| Write-off from premises and equipment | | 838 | 663 |
| Accrued interest, net | | 11,405 | (26,291) |
| Taxation | 13 | 705 | (653) |
| Operating profits before changes in operating assets/liabilities | | 44,923 | (13,341) |
| Changes in operating assets and liabilities: | | | |
| Net (increase)/decrease in balances with Central Bank | | 6,299 | (14,301) |
| Net (increase) / decrease in marketable securities | | (66,895) | 24,981 |
| Net increase from loans and receivables | | (160,753) | (151,769) |
| Net (increase)/decrease in other assets | | 2,561 | 5,325 |
| Net increase in deposits | | 264,073 | 223,321 |
| Net increase/(decrease) in other creditors, taxes & liabilities | | (1,680) | (2,886) |
| Employment termination benefits paid | 12 | (92) | (376) |
| Income taxes paid | | (5,192) | - |
| Net cash provided by/(used in) operating activities | | 83,244 | 70,954 |
| Cash flows from investing activities | | | |
| (Additions) to premises and equipment | 7 | (1,299) | (12,997) |
| (Additions) to intangible assets | 8 | (332) | (2,190) |
| Proceeds from disposal of premises and equipment | | 109 | 593 |
| Net cash provided by/(used in) investing activities | | (1,522) | (14,594) |
| Cash flows from financing activities | | | |
| Proceeds from borrowed funds, net | | (151,698) | 56,411 |
| Issue of share capital | | - | 100,000 |
| Net cash provided by/(used in) financing activities | | (151,698) | 156,411 |
| Net (decrease)/increase in cash & cash equivalents | | (69,976) | 212,771 |
| Cash & cash equivalents at the beginning of the year | | 249,429 | 36,658 |
| Cash & cash equivalents at the end of the year | 3 | 179,453 | 249,429 |

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

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

1. CORPORATE INFORMATION

Turkland Bank Anonim Şirketi (“the Bank”) was established in 1991 in İstanbul under the name of “Bahreyn ve Kuveyt Bankası Anonim Şirketi” (BB&K). Its name was changed as “Tasarruf ve Kredi Bankası Anonim Şirketi” with its acquisition by Doğuş Group in 1992. After the change in the name of the bank as “Garanti Yatırım ve Ticaret Bankası Anonim Şirketi” in 1994, Mehmet Nazif Günel (the main shareholder of MNG Group Companies) has acquired the Bank in 1997 and the name of the Bank has been changed as “MNG Bank Anonim Şirketi”.

An agreement has been made with Arab Bank and BankMed upon the sale of 91% of MNG Banks shares in mid 2006 and this agreement was approved by Banking Regulation and Supervision Agency (BRSA) on December 29, 2006. In this regard, while Arab Bank and BankMed purchased 50% and 41% of MNG bank shares respectively, Mehmet Nazif Günel retained 9% of the shares. Transfer of the Bank was done on January 29, 2007. The title of the Bank has been changed as “Turkland Bank Anonim Şirketi” with the amendment to the Articles of Association by the decision of the Extraordinary General Assembly at the meeting on March 22, 2007. New title of the Bank was registered on April 3, 2007

On April 3, 2007, “MNG BANK Anonim Şirketi” title of the Bank was registered as “TURKLAND BANK Anonim Şirketi”.

As of December 31, 2009, the Bank has 25 branches in Turkey and its head office is at 19 Mayıs Mah. 19 Mayıs Cad. Şişli Plaza A Blok No: 7 Şişli-İstanbul.

The financial statements of the Bank were authorized for issue by the management on March 1, 2010. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards (“IAS”). The principal accounting policies adopted in the preparation of these financial statements are set out below:

Basis of Presentation of Financial Statements:

The Bank maintains its books of account and prepares its financial statements in Turkish Lira, which is the currency of the primary economic environment in which the Bank operates, in accordance with the Banking Act, based on accounting principles regulated by the Banking Regulation and Supervision Agency (“BRSA”), the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish Tax Legislation and relevant accounting rules and regulations.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for those items measured at fair value, with adjustments and reclassifications for the purposes of fair presentation in accordance with IFRS. These financial statements are presented in Turkish Lira since that is the currency in which the majority of the Bank’s transactions are denominated.

The accompanying IFRS financial statements adopt the accounting principles and policies applied by the BRSA in the Bank’s statutory financial statements wherever those do not conflict with IFRS.

The effects of the differences between IFRS and generally accepted accounting principles in other countries than Turkey have not been quantified in the accompanying notes to the financial statements. In the opinion of the Bank’s management, all adjustments necessary for the fair presentation of financial position, results of operations and cash flows for the period have been made in the accompanying financial statements.

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Presentation of Financial Statements (continued)

Certain reclassifications could be made to the prior year figures to comply with the current year presentation in case of necessity.

2.2 Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2.3 Functional and Presentation Currency

Functional and presentation currency of the Bank is the Turkish Lira (TRY).

Financial statements for the year ended December 31, 2005 were restated for the changes in the general purchasing power of the functional currency based on International Accounting Standard No. 29 (“IAS 29”) “Financial Reporting in Hyperinflationary Economies”. IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and that corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Three years inflation rate in Turkey was 36% as of December 31, 2005, based on the Turkish nation-wide wholesale price indices announced by the State Statistics Association (“SSA”). However, IAS 29 does not establish the rate of 100% as an absolute rate at which hyperinflation is deemed to arise. It is a matter of judgment when restatement of financial statements in accordance with IAS 29 becomes necessary. Moreover, hyperinflation is also indicated by characteristics of the economic environment of a country.

As hyperinflationary conditions in Turkey no longer existed starting from January 1, 2006, Turkish Lira (“TRY”) has been treated as a more stable currency since that time and the financial statements of the Bank and those of the subsidiaries located in Turkey prepared in accordance with IFRSs are not required to be adjusted for hyperinflationary accounting.

In accordance with Law No: 5083 “Monetary Unit of the Turkish Republic” (Law No: 5083), the name of the Turkish Republic’s monetary unit and its sub-currency unit is changed to the New Turkish Lira and the New Turkish Cent, respectively. However, in accordance with the additional resolution of the Council of Ministers in regards to the order on the removal of the phrase “New” in the New Turkish Lira and the New Turkish Cent and Its Application Principles, the phrase “New” used in the Turkish Republic’s monetary unit is removed both from New Turkish Lira and the New Turkish Cent as of January 1, 2009.

2.4 Foreign Currency Transactions and 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 balance sheet date. All differences are taken to the income statement.

Foreign currency translation rates used by the Bank as of respective year-ends are as follows:

| | EUR / TRY | USD / TRY |
|-------------------|------------------|------------------|
| December 31, 2007 | 1.7044 | 1.1593 |
| December 31, 2008 | 2.1451 | 1.5345 |
| December 31, 2009 | 2.1401 | 1.4953 |

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and impairment as at the reporting date. Premises and equipment, except land that is deemed to have indefinite life, are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

| | |
|----------------------------------|----------|
| Safes | 2%-10% |
| Vehicles, Furniture and Fittings | 10%-50% |
| Leasehold Improvements | 6.6%-20% |

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

The costs of a major inspection or overhaul that are accounted as a separate asset component are capitalized. Subsequent expenditures incurred on the premises and equipment, are added to the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the asset will flow to the entity. All other subsequent expenditures and major inspection or overhaul costs that are embodied in the item of property and equipment are recognized as an expense when it is incurred.

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of income.

Expenditures in tangible fixed assets which are not expected to create an economic benefit in following periods amounting to net TRY 664 are reflected as expense in the financial statements in 2009.

2.6 Intangible Assets

Computer Software Development Costs:

The Bank generally recognizes computer software development costs as expenses in the period in which they are incurred. However, if it is probable that future economic benefits will flow to the Bank, to the extent that assets created can be identified and create future economic benefit and expenditures can reliably be measured and attributable to the asset, development costs incurred are incorporated into the initial cost of computer software. All other subsequent expenditure associated with the maintenance of the existing computer software is recognized as expense in the period in which it is incurred.

Computer software development costs capitalized as assets are amortized on a straight line basis over their expected useful lives, generally three years.

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Investments and Other Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value (net of transaction costs except for those financial assets classified as at fair value through profit and loss which are initially measured at fair value). The Bank 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 Bank. 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.

a) 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 as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income and include any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 23.

b) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees 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. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held to maturity securities is reported as interest income.

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Investments and Other Financial Assets (continued)

c) Loans and receivables

Loans and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

d) 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 three 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 income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Bank's right to receive payments is established. The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

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 balance sheet date. 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 and other valuation techniques commonly used.

The following equity investment which is shown under securities available for sale has been accounted for at cost:

| Entity | Sector | The Bank's Ownership % |
|------------------------------------|-----------------------------|------------------------|
| İMKB Takas ve Saklama Bankası A.Ş. | Settlement and Custody Bank | 0.025 |

e) Repurchase and Resale Transactions

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

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

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Offsetting Financial Instruments

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

2.9 Cash and Cash Equivalents

For the purposes of the cash flows statement, 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 an original maturity of three months or less.

2.10 Impairment of Financial Assets

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.11 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

TURKLAND BANK ANONİM ŞİRKETİ
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Borrowings

Bank borrowings:

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

2.13 Employee Benefits – Defined Benefit Plans

Defined Benefit Plans:

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

Such defined benefit plan is unfunded since there is no funding requirement in Turkey. The cost of providing benefits under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 12 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2009 is TRY 1,400 (2008: TRY 962)

2.14 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

2.15 Leases

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

The Bank as Lessee

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized 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, throughout the period to the next repricing date. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees 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.

2.17 Income Tax

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

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

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Derivative Financial Instruments

The Bank's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. In the normal course of business, the Bank enters into a variety of derivative transactions principally in the foreign exchange markets. These are used to provide financial services to customers and to actively take, hedge and modify positions as part of trading activities. Derivatives are also used to hedge or modify risk exposures arising on the balance sheet from a variety of activities including placements, lending and securities investment. The majority of the counterparties in the Bank's derivative transactions are banks and other financial institutions.

The Bank uses derivative financial instruments (primarily foreign currency forward and swap contracts) to hedge its risks associated with foreign currency fluctuations.

The use of financial derivatives is governed by the Bank's policies approved by the board of directors, on the use of financial derivatives consistent with the Bank's risk management strategy.

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

2.19 Fiduciary Assets

Assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Bank.

2.20 Adoption of New and Revised Standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("the IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2009. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Bank's accounting policies in the following areas:

- IAS 1 (Revised), "Presentation of Financial Statements"

The revised standard prohibits the presentation of items of income and expenses (referred to as 'non-owner changes in equity') in the statement of changes in equity. Non-owner changes in equity are to be presented separately from owner changes in equity and are required to be disclosed in a Statement of Comprehensive Income. Entities have the option of either presenting one statement or two statements. The Bank has applied IAS1 (Revised) from January 1, 2009 and have chosen to present both a statement of income/ (loss) and a statement of comprehensive income/ (loss). The adoption of IAS 1 (Revised) does not have any impact on the reported results or financial position of the Bank.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Adoption of New and Revised Standards (continued)

- IFRS 7 (Amendments), “Financial Instruments: Disclosures”

Amendments to IFRS 7 which was issued in March 2009 is applicable to the Bank beginning on January 1, 2009. These amendments require enhanced disclosure on fair value measurements as well as on liquidity risks. Specifically, the amendments require the Bank to disclose changes in valuation techniques for classes of financial instruments where valuation techniques were used to determine fair values. In addition for each class of financial instrument, the Bank is required to disclose the level in the fair value hierarchy into which the fair value measurements are categorized. When valuation techniques used to determine fair values of financial instrument changes, the transfers between levels of the fair value hierarchy are required to be disclosed. Furthermore, the Bank is required to provide a reconciliation of fair values measurements that are determined based on unobservable inputs. Sensitivity analysis on changes in assumptions related to unobservable inputs should also be presented if such changes would produce significant fair value changes.

IFRS 7 further clarifies that the current maturity analysis for non-derivative financial instruments should include issued financial guarantee contracts, and requires the Bank to add disclosure of a maturity analysis for derivative financial liabilities.

The Bank has implemented the amendments to IFRS 7 in 2009 and has disclosed fair value hierarchy information in Note 23 to the financial statements. In the current year, the Bank did not make significant transfers between fair value hierarchy levels. Furthermore, the Bank has included contractual maturity analysis in Note 23 to the financial statements.

- IFRS 8 “Operating Segments”

IFRS 8 replaces IAS 14 ‘Segment reporting’ and requires segment information to be presented under a ‘management approach’, where segment information is to be shown on the same basis as that used for internal reporting purposes.

The Bank has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision makers.

- IFRIC 13 “Customer Loyalty Programmes”

Under IFRIC 13, customer loyalty programs are recognized as a separately identifiable component of the sales transactions. A portion of the fair value of the consideration received in respect of the initial sale shall be allocated to the award credits and the consideration allocated to award credits should be recognized as revenue when awards credits are redeemed.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Adoption of New and Revised Standards (continued)

Standards, amendments and interpretations effective in 2009 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Bank's operations:

- IFRS 1 "First time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements" (Amendment relating to cost of an investment on first-time adoption)
- IFRS 2 "Share-based Payment" (Amendment relating to vesting conditions and cancellations)
- IAS 1 "Presentation of Financial Statements" and IAS 32 "Financial Instruments – Presentation" (Amendments relating to disclosure of puttable instruments and obligations arising on liquidation)
- IAS 39 "Financial Instruments: Recognition and Measurement" (Amendments for embedded derivatives when reclassifying financial instruments)
- Amendments resulting from May 2008 Annual Improvements to IFRSs (IAS 1 "Presentation of Financial Statements", IAS 16 "Property, Plant and Equipment", IAS 19 "Employee Benefits", IAS 20 "Government Grants and Disclosure of Government Assistance", IAS 23 "Borrowing Costs", IAS 27 "Consolidated and Separate Financial Statements", IAS 28 "Investment in Associates", IAS 31 "Interests in Joint Ventures", IAS 29 "Financial Reporting in Hyperinflationary Economies", IAS 36 "Impairment of Assets", IAS 39 "Financial Instruments: Recognition and Measurement", IAS 40 "Investment Property", IAS 41 "Agriculture")
- IFRIC 15, "Agreements for the Construction of Real Estate"
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation"

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

- IFRS 1 "First Time Adoption of IFRS" (Amendments relating to oil and gas assets and determining whether an arrangement contains a lease)
- IFRS 2 "Share-based Payment" (Amendment relating to group cash-settled share-based payment transactions)
- IFRS 3 "Business Combinations", IAS 27 "Consolidated and separate financial statements", IAS 28 "Investment in Associates", IAS 31 "Interests in Joint Ventures" (Comprehensive revision on applying the acquisition method)
- IFRS 9 "Financial Instruments" (First stage of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" including provisions related to recognition and derecognition, classification and measurement of financial instruments)
- IAS 39 "Financial Instruments: Recognition and Measurement" (Amendments for eligible hedged items)
- IFRIC 17 "Distributions of Non-cash Assets to Owners"
- Amendments resulting from May 2008 Annual Improvements to IFRSs (IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations")
- Amendments resulting from April 2009 Annual Improvements to IFRSs (IFRS 2 "Share-based Payment", IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 "Operating Segments", IAS 1 "Presentation of Financial Statements", IAS 7 "Statement of Cash Flows", IAS 17 "Leases", IAS 36 "Impairment of Assets, IAS 38 "Intangible Assets", IAS 39 "Financial Instruments: Recognition and Measurement")
- IFRIC 18 "Transfers of Assets from Customers" is effective for all transfers received on or after July 1, 2009.

Other than IFRS 9, these changes are not expected to have any significant influence on the financial statements of the Bank.

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3. CASH AND CASH EQUIVALENTS

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Cash on hand | 20,234 | 11,024 |
| Demand deposits – Turkish Lira | 4 | 10 |
| Demand deposits- Foreign Currency | 4,437 | 20,431 |
| Time deposits | 62,804 | 74,895 |
| Money market placements | 77,514 | 123,352 |
| Deposits with banks and other financial institutions | 144,759 | 218,688 |
| Total | 164,994 | 229,712 |

The effective interest rates on deposits and placements are as follows:

| | December 31, 2009 | | December 31, 2008 | |
|--|-------------------------|---------------------|-------------------------|---------------------|
| | Effective interest rate | | Effective interest rate | |
| | Turkish Lira | Foreign Currency | Turkish Lira | Foreign Currency |

| | | | | |
|--|------|-----------|-----|------------|
| Deposits with banks and other financial institutions | 6.5% | 0.1%-0.9% | 15% | 0.03%-1.5% |
|--|------|-----------|-----|------------|

| | December 31, 2009 | December 31, 2008 |
|-------------------------------------|----------------------|----------------------|
| Cash and cash equivalents | 164,994 | 229,712 |
| Balances with Central Bank (Note 4) | 14,763 | 20,339 |
| Less: income accruals | (304) | (622) |
| Cash and cash equivalents | 179,453 | 249,429 |

4. BALANCES WITH CENTRAL BANK

| | December 31, 2009 | December 31, 2008 |
|-----------------------------------|----------------------|----------------------|
| Balances with Central Bank | 14,763 | 20,339 |
| Reserve deposits | 35,571 | 41,940 |
| Balances with Central Bank | 50,334 | 62,279 |

Under the regulations of the Central Bank of the Turkish Republic (“Central Bank”), banks are required to deposit with the Central Bank a proportion of all deposits taken from customers, other than domestic interbank deposits. These reserves are not available to finance the operations of the Bank. Balances with the Central Bank earn interest at the interest rates determined by the Central Bank.

As of December 31, 2009 under the prevailing regulations reserve deposits represent the minimum deposits maintained with the Central Bank. The rates used by the Central Bank to determine the required amount of deposits are 5% for TRY deposits and 9% for foreign currency deposits. Reserve deposits earn only interest at 5.2% for TRY deposits (2008: 12%, 0.15% and 1.18% for TRY, USD and EUR, respectively).

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5. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Debt instruments | | |
| Turkish treasury bills | 964 | 930 |
| Total financial assets at fair value through profit and loss | 964 | 930 |

Investment Securities:

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Available- for-sale securities _ Quoted | | |
| Turkish treasury bills | 138,360 | 71,084 |
| Eurobonds issued by the Turkish government | 82 | - |
| Total available for sale securities_ Quoted | 138,442 | 71,084 |
| Available- for-sale securities _ Unquoted | | |
| Equity instruments | 79 | 79 |
| Total available for sale securities _ Unquoted | 79 | 79 |
| Total available for sale securities | 138,521 | 71,163 |
| Held-to-maturity securities _ Quoted | | |
| Turkish government bonds | 39,209 | 29,765 |
| Total held-to-maturity securities | 39,209 | 29,765 |
| Total investment securities | 177,730 | 100,928 |

Unlisted equity securities classified as available-for-sale securities represent the Bank's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, as a reliable estimate of their fair values could not be made.

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5. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Securities Pledged Under Repurchase Agreements:

Carrying value of debt instruments given as collateral under repurchase agreements which are classified as loaned securities and related liabilities are:

| | December 31, 2009 | December 31, 2008 |
|---|----------------------|----------------------|
| Financial assets at fair value through profit and loss | 18 | 8 |
| Available for sale securities | - | - |
| Held to maturity securities | - | - |
| Carrying value of securities under repurchase agreements | 18 | 8 |
| Related liability | 15 | 7 |

Repurchase agreements mature within one month.

In addition, as of December 31, 2009, government securities with carrying values of TRY 43,473 (2008: TRY 41,920) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası A.Ş. (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

TRY 66,069 (2008: TRY 7,334) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

6. LOANS AND RECEIVABLES

| | December 31, 2009 | | | December 31, 2008 | | |
|--|-------------------|-------------------------|---------------------|-------------------|-------------------------|---------------------|
| | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency | | Turkish Lira | Foreign Currency |
| Corporate loans | 500,570 | 4.0%-63% | 3.97%-13% | 458,067 | 5.9%-63% | 6.0%-13.0% |
| Small business loans | 212,156 | 3.1%-63% | 3.86%-13% | 124,336 | 6.75%-63% | 7.0%-14.0% |
| Consumer loans | 3,508 | 7.2%-63% | - | 8,953 | 7.2%-64% | - |
| Total performing loans | 716,234 | | | 591,356 | | |
| Non-performing loans | 33,778 | | | 15,490 | | |
| Less: Specific reserve for impairment | (25,526) | | | (13,468) | | |
| Less: Portfolio reserve for impairment | (7,208) | | | (3,474) | | |
| Total | 711,278 | | | 589,904 | | |

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6. LOANS AND RECEIVABLES (continued)

Non performing loans represent impaired loans and receivables on which interest is not being accrued and loans overdue generally for more than 90 days for which interest is suspended.

| December 31, 2009 | Corporate | Small Business | Consumer | Other | Total |
|---|------------------|---------------------------|-----------------|--------------|-----------------|
| Neither past due nor impaired | 478,398 | 199,646 | 3,210 | - | 681,254 |
| Past due not impaired | 22,172 | 12,510 | 298 | - | 34,980 |
| Individually impaired | 24,468 | 8,296 | 1,014 | - | 33,778 |
| Total Gross | 525,038 | 220,452 | 4,522 | - | 750,012 |
| Less: allowance for individually impaired loans | (18,738) | (5,939) | (849) | - | (25,526) |
| Less: allowance for collectively impaired loans | (5,038) | (2,135) | (35) | - | (7,208) |
| Total Allowance for impairment | (23,776) | (8,074) | (884) | - | (32,734) |
| Total net | 501,262 | 212,378 | 3,638 | - | 717,278 |
| December 31, 2008 | Corporate | Small Business | Consumer | Other | Total |
| Neither past due nor impaired | 446,537 | 116,762 | 8,546 | - | 571,845 |
| Past due not impaired | 11,530 | 7,574 | 407 | - | 19,511 |
| Individually impaired | 12,046 | 2,607 | 764 | 73 | 15,490 |
| Total Gross | 470,113 | 126,943 | 9,717 | 73 | 606,846 |
| Less: allowance for individually impaired loans | (10,754) | (1,934) | (707) | (73) | (13,468) |
| Less: allowance for collectively impaired loans | (2,691) | (730) | (53) | - | (3,474) |
| Total Allowance for impairment | (13,445) | (2,664) | (760) | (73) | (16,942) |
| Total net | 456,668 | 124,279 | 8,957 | - | 589,904 |

A reconciliation of the allowance for individually impaired loans by classes is as follows;

| December 31, 2009 | Corporate | Small Business | Consumer | Other | Total |
|-----------------------------|------------------|---------------------------|-----------------|--------------|---------------|
| At January 1, 2009 | 10,754 | 1,934 | 707 | 73 | 13,468 |
| Change in business segment | 65 | 12 | (4) | (73) | - |
| Charge for the year | 8,841 | 4,297 | 233 | - | 13,371 |
| Recoveries | (823) | (101) | (17) | - | (941) |
| Amounts written off | (99) | (203) | (70) | - | (372) |
| At December 31, 2009 | 18,738 | 5,939 | 849 | - | 25,526 |
| December 31, 2008 | Corporate | Small Business | Consumer | Other | Total |
| At January 1, 2008 | 7,142 | 236 | 1,154 | - | 8,532 |
| Change in business segment | 156 | 69 | (298) | 73 | - |
| Charge for the year | 4,516 | 1,671 | 75 | - | 6,262 |
| Recoveries | (490) | (36) | (81) | - | (607) |
| Amounts written off | (570) | (6) | (143) | - | (719) |
| At December 31, 2008 | 10,754 | 1,934 | 707 | 73 | 13,468 |

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6. LOANS AND RECEIVABLES (continued)

Movements in the allowance for impaired loans:

| | December 31, 2009 | December 31, 2008 |
|-----------------------------------|----------------------|----------------------|
| At January 1 | 16,942 | 11,049 |
| Provision for impairment | 17,105 | 7,313 |
| Recoveries | (941) | (701) |
| Provision net recoveries | 16,164 | 6,612 |
| Loans written off during the year | (372) | (719) |
| At December 31 | 32,734 | 16,942 |

The fair value of collaterals that the Bank holds related to loans individually determined to be impaired at December 31, 2009 is TRY 13,819 (2008: TRY 3,292).

Collaterals and credit enhancements obtained during the year with respect to impaired loans: None (2008: None).

Aging analysis of past due but not impaired loans per class of financial statements:

| December 31, 2009 | Less than 30 days | 31-60 days | 61-90 days | More than 91 days | Total |
|-------------------------------|----------------------|------------|------------|----------------------|---------------|
| Loans and receivables | | | | | |
| <i>Corporate lending</i> | 21,686 | 486 | - | - | 22,172 |
| <i>Small business lending</i> | 12,299 | 201 | 10 | - | 12,510 |
| <i>Consumer lending</i> | 267 | 9 | 22 | - | 298 |
| <i>Other</i> | | | | | |
| Total | 34,252 | 696 | 32 | - | 34,980 |

| December 31, 2008 | Less than 30 days | 31-60 days | 61-90 days | More than 91 days | Total |
|-------------------------------|----------------------|--------------|--------------|----------------------|---------------|
| Loans and receivables | | | | | |
| <i>Corporate lending</i> | 6,067 | 1,106 | 4,357 | - | 11,530 |
| <i>Small business lending</i> | 4,692 | 1,707 | 1,175 | - | 7,574 |
| <i>Consumer lending</i> | 111 | 110 | 186 | - | 407 |
| <i>Other</i> | - | - | - | - | - |
| Total | 10,870 | 2,923 | 5,718 | - | 19,511 |

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals that the Bank held as at December 31, 2009 was TRY 71,399 (2008: TRY 30,958).

Loans and receivables amounting to TRY 477,990 have floating interest rates and the rest have fixed interest rates. (2008: TRY 442,588)

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7. PREMISES AND EQUIPMENT

| | Machinery and Equipment | Furniture and Fixture | Vehicles | Leasehold Improvements | Others | Total |
|--|--|--------------------------------------|-----------------|-----------------------------------|---------------|---------------|
| <u>Acquisition Cost</u> | | | | | | |
| At January 1, 2008 | 2,159 | 813 | 175 | 5,775 | 8,867 | 17,789 |
| Additions | 1,190 | 919 | - | 8,720 | 3,982 | 14,811 |
| Disposals | (7) | - | (175) | (825) | (344) | (1,351) |
| At December 31, 2008 | 3,342 | 1,732 | - | 13,670 | 12,505 | 31,249 |
| <u>Accumulated Amortization</u> | | | | | | |
| At January 1, 2008 | 1,479 | 263 | 175 | 4,030 | 5,673 | 11,620 |
| Charge for the year | 464 | 236 | - | 1,526 | 994 | 3,220 |
| Disposals | (1) | - | (175) | (176) | (6) | (358) |
| At December 31, 2008 | 1,942 | 499 | - | 5,380 | 6,661 | 14,482 |
| At December 31, 2008 | 1,400 | 1,233 | - | 8,290 | 5,844 | 16,767 |
| <u>Acquisition Cost</u> | | | | | | |
| At January 1, 2009 | 3,342 | 1,732 | - | 13,670 | 12,505 | 31,249 |
| Additions | 153 | 102 | - | 778 | 266 | 1,299 |
| Disposals | (2) | (59) | - | (4,848) | (101) | (5,010) |
| At December 31, 2009 | 3,493 | 1,775 | - | 9,600 | 12,670 | 27,538 |
| <u>Accumulated Amortization</u> | | | | | | |
| At January 1, 2009 | 1,942 | 499 | - | 5,380 | 6,661 | 14,482 |
| Charge for the year | 479 | 297 | - | 1,893 | 1,085 | 3,754 |
| Disposals | (1) | (51) | - | (3,910) | (103) | (4,065) |
| Write-off | - | - | - | 24 | - | 24 |
| At December 31, 2009 | 2,420 | 745 | - | 3,387 | 7,643 | 14,195 |
| At December 31, 2009 | 1,073 | 1,030 | - | 6,213 | 5,027 | 13,343 |

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8. INTANGIBLE ASSETS

| | Software | Total |
|--|-----------------|--------------|
| <u>Acquisition Cost</u> | | |
| At January 1, 2008 | 4,824 | 4,824 |
| Additions | 2,537 | 2,537 |
| At December 31, 2008 | 7,361 | 7,361 |
| <u>Accumulated Amortization</u> | | |
| At January 1, 2008 | 4,004 | 4,004 |
| Charge for the year | 804 | 804 |
| At December 31, 2008 | 4,808 | 4,808 |
| At December 31, 2008 | 2,553 | 2,553 |
| <u>Acquisition Cost</u> | | |
| At January 1, 2009 | 7,361 | 7,361 |
| Additions | 332 | 332 |
| At December 31, 2009 | 7,693 | 7,693 |
| <u>Accumulated Amortization</u> | | |
| At January 1, 2009 | 4,808 | 4,808 |
| Charge for the year | 1,183 | 1,183 |
| At December 31, 2009 | 5,991 | 5,991 |
| At December 31, 2009 | 1,702 | 1,702 |

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9. OTHER ASSETS

| | December 31, 2009 | December 31, 2008 |
|------------------|----------------------|----------------------|
| Prepaid expenses | 1,466 | 2,647 |
| Advances | 357 | 215 |
| Clearing account | 6,302 | 7,929 |
| Other | 2,890 | 833 |
| Total | 11,015 | 11,624 |

10. DEPOSITS

| Deposits from banks | December 31, 2009 | | | | December 31, 2008 | | | | |
|---------------------|-------------------|-------------------------|------------------|------------|-------------------------|------------------|--------|-------------------------|---|
| | Amount | Effective interest rate | | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency | | Turkish Lira | Foreign Currency | | | |
| Demand | 1,044 | - | - | 456 | - | - | - | - | - |
| Total | 1,044 | | | 456 | | | | | |

| Customers' deposits | December 31, 2009 | | | | December 31, 2008 | | | | |
|-----------------------------|-------------------|-------------------------|------------------|----------------|-------------------------|------------------|--------|-------------------------|---|
| | Amount | Effective interest rate | | Amount | Effective interest rate | | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency | | Turkish Lira | Foreign Currency | | | |
| Saving | | | | | | | | | |
| Demand | 43,610 | - | - | 28,788 | - | - | - | - | - |
| Time | 677,342 | 5.00%-13.1% | 1.00%-5.50% | 459,536 | 13.5%-24.5% | 1.00%-8.99% | - | - | - |
| | 720,952 | | | 488,324 | | | | | |
| Commercial and other | | | | | | | | | |
| Demand | 38,250 | | | 22,551 | - | - | - | - | - |
| Time | 81,704 | 3.00%-10.06% | - | 66,556 | 10.00%-24% | 1.00%-8.50% | - | - | - |
| | 119,954 | | | 89,107 | | | | | |
| Total | 840,906 | | | 577,431 | | | | | |

All deposits have fixed interest for the years ended December 31, 2009 and 2008.

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11. FUNDS BORROWED

| | December 31, 2009 | December 31, 2008 | |
|--------------------------|----------------------|--------------------------------|-----------------------------|
| Borrowings | 48,878 | 203,737 | |
| Total | 48,878 | 203,737 | |
| December 31, 2009 | | | |
| | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency |
| Short-term | | | |
| Fixed interest | 48,878 | 7%-15% | 2%-5% |
| Floating interest | - | - | - |
| Medium/long-term | - | - | - |
| Fixed interest | - | - | - |
| Floating interest | - | - | - |
| Total | 48,878 | | |
| December 31, 2008 | | | |
| | Amount | Effective interest rate | |
| | | Turkish Lira | Foreign Currency |
| Short-term | | | |
| Fixed interest | 203,737 | 14%-18% | 4%-7% |
| Floating interest | - | - | - |
| Medium/long-term | - | - | - |
| Fixed interest | - | - | - |
| Floating interest | - | - | - |
| Total | 203,737 | | |

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12. OTHER LIABILITIES AND PROVISIONS

| | December 31, 2009 | December 31, 2008 |
|----------------------------------|------------------------------|------------------------------|
| Other liabilities | | |
| Taxes and dues payable | 2,956 | 3,919 |
| Trade payables and advances | 1,570 | 3,275 |
| Cheques clearance account | 12,204 | 12,001 |
| Payables to government funds | 206 | 55 |
| Blocked money | 2,654 | 595 |
| Obligations under finance leases | 917 | 2,288 |
| Other | 1,121 | 1,122 |
| | 21,628 | 23,255 |
| Provisions | | |
| Employee termination benefits | 1,400 | 962 |
| Unused vacation provision | 954 | 720 |
| Provision on lawsuits | 998 | 362 |
| Provision on non-cash loans | 1,418 | 1,316 |
| Provision for bonus payments | 2,200 | - |
| Other | 3,510 | - |
| | 10,480 | 3,360 |
| Total | 32,108 | 26,615 |

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12. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

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. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 2.365, and TRY 2.172 at December 31, 2009 and 2008, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2009, the Bank 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 balance sheet date. The annual ceiling has been increased to TRY 2.427 effective January 1, 2010.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

| | December 31, 2009 | December 31, 2008 |
|--|------------------------------|------------------------------|
| Discount rate for pension plan liabilities | 11.0% | 12.0% |
| Inflation | 4.8% | 5.4% |

Movements in the defined benefit obligations in the current period were as follows:

| | December 31, 2009 | December 31, 2008 |
|--|------------------------------|------------------------------|
| Opening | 962 | 807 |
| Current service cost | 303 | 255 |
| Interest cost | 105 | 80 |
| Actuarial (gains)/ losses | 122 | (63) |
| Benefits paid | (92) | (376) |
| Additional indemnities or gain/ (loss) | - | 259 |
| Closing balance at period end | 1,400 | 962 |

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13. INCOME TAXES

The Bank is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Bank's results for the period.

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

The effective rates of tax are as follows: 20% in 2009 and 2008.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2009 (2008: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively. In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st to 25th of the fourth month following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax:

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from April 24, 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from July 23, 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to April 24, 2003. Subsequent to this date, companies can deduct 40% of the investments within the scope of the investment incentive certificate and that are directly related to production facilities of the Bank. The investments without investment incentive certificates do not qualify for tax allowance.

Investment incentive was abolished being effective from January 1, 2006. In case that, entities do not have sufficient taxable income, deduction of the unused investment incentive as of December 31, 2005 from 2006, 2007 and 2008 income was allowed however it was not permitted to defer this investment incentive to subsequent periods after 2008. The Constitutional Court abolished this regulation on October 15, 2009 and the time constraint related to investment incentive has been removed as of the issue of these financial statements. The resolution has been published in the Official Gazette on January 8, 2010.

The tax rate that companies can use in case of deducting tax investment incentive amount is 30%. If companies choose not to use the investment incentive carried forward, the effective tax rate will be 20% and the unused investment incentive will be cancelled.

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13. INCOME TAXES (continued)

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

Balance Sheet:

| | December 31, 2009 | December 31, 2008 |
|--|------------------------------|------------------------------|
| Corporate taxes and funds (*) | - | - |
| Deferred tax (asset) / liability (net) | (3,226) | (2,098) |

(*) The prepaid tax is higher than the corporate tax liability and they are net off in other assets in the balance sheet.

Income Statement:

| | December 31, 2009 | 31 December, 2008 |
|--|------------------------------|------------------------------|
| Current income tax from continuing operations | (3,240) | - |
| Tax reimbursement (*) | - | 3,611 |
| Deferred tax benefit/(charge) from continuing operations | 2,535 | 653 |
| | (705) | 4,264 |
| Current income tax from discontinued operations | - | - |
| Deferred tax benefit/(charge) from discontinued operations | - | - |
| | - | - |

(*) The Bank has waived from the lawsuit opened against the Ministry of Finance of the Turkish Republic ("Ministry") based on the requirement about the deduction from the tax base of the Bank based on the Temporary Article 4 with the Banking Law No: 4389 by using the statutory and other reserves as an expense within the framework set out in Paragraph 7 of Article 14 of the annulled Corporate Tax Law No: 5422, and has settled with the Ministry based on Article 3 of Law No: 5736 "Collection of Some Government Receivables by Compromise Procedures" published in the Official Gazette No: 26800 on February 27, 2008 and reflected its receivable amounting to TRY 3,611 in its financial statements which became collectible with the notification to the Bank.

Temporary differences and corresponding deferred taxes are as follows:

| | December 31, 2009 Timing Differences | December 31, 2009 Deferred Tax (Asset)/Liability |
|--|---|---|
| Useful life difference on premises and equipment and intangible assets | (486) | (97) |
| Retirement pay and unused vacation provision | (2,354) | (471) |
| Loan impairment provision | (5,202) | (1,040) |
| Provision for bonus payments | (2,200) | (440) |
| Other | (5,888) | (1,178) |
| Total | (16,130) | (3,226) |

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13. INCOME TAXES (continued)

| | December 31, 2008 | December 31, 2008 |
|--|-------------------------------|---|
| | Timing Differences | Deferred Tax (Asset)/Liability |
| Useful life difference on premises and equipment and intangible assets | 1,107 | 221 |
| Retirement pay and unused vacation provision | (1,682) | (337) |
| Loan impairment provision | (5,115) | (1,023) |
| Carry forward tax losses | (4,447) | (889) |
| Other | (351) | (70) |
| Total | (10,488) | (2,098) |

Movement of deferred tax (asset) / liability:

| | December 31, 2009 | December 31, 2008 |
|--------------------------------------|------------------------------|------------------------------|
| Opening balance at 1 January | (2,098) | (1,596) |
| Current year charge / (benefit) | (2,535) | (653) |
| Subtotal | (4,633) | (2,249) |
| Deferred tax under equity | 1,407 | 151 |
| Closing balance at period end | (3,226) | (2,098) |

Current income tax can be reconciled to the profit per statement of income as follows:

| | December 31, 2009 | December 31, 2008 |
|---|------------------------------|------------------------------|
| Reconciliation of Taxation | | |
| Income/(loss) before taxation and minority interest | 4,193 | 812 |
| Tax at the domestic income tax rate of 20% (2008: 20%) | (839) | (162) |
| Tax effect of undeductable expenses | (221) | (343) |
| Tax effect of income that is deductible in determining taxable income and other adjustments | 355 | 1,158 |
| Tax reimbursement | - | 3,611 |
| Tax benefit / (charge) per income statement | (705) | 4,264 |

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14. DERIVATIVES

In the ordinary course of business, the Bank 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. The table below shows the 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.

| | December 31, 2009 | | | December 31, 2008 | | |
|-------------------------------------|-------------------|------------------------|--|-------------------|------------------------|--|
| | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent | Fair value assets | Fair value liabilities | Notional amount in Turkish Lira equivalent |
| Derivatives held-for-trading | | | | | | |
| Currency swap contracts | 39 | - | 13,949 | - | - | - |
| Other | - | - | - | 8 | - | 216 |
| Total | 39 | - | 13,949 | 8 | - | 216 |

Fair value hedges

As of December 31, 2009, the Bank has no fair value hedges (2008: None).

Cash flow hedges

As of December 31, 2009, the Bank has no cash flow hedges (2008: None).

Hedge of net investment in foreign operations

As of December 31, 2009, the Bank has no hedge of net investment in foreign operations (2008: None).

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15. SHARE CAPITAL

| | December 31, 2009 | December 31, 2008 |
|---|------------------------------|------------------------------|
| Total number of shares, TRY 0.1 par value | 1,700 Million | 1,700 Million |
| Total number of shares | 1,700 Million | 1,700 Million |

As of December 31, 2009 and 2008, the composition of shareholders and their respective % of ownership are summarized as follows:

| | December 31, 2009 | |
|--------------------|--------------------------|----------|
| | Amount | % |
| Arap Bank PLC | 85,000 | 50% |
| Bankmed, SAL | 69,700 | 41% |
| Mehmet Nazif Günel | 15,300 | 9% |
| Restatement effect | 148,164 | |
| Total | 318,164 | |
| | December 31, 2008 | |
| | Amount | % |
| Arap Bank PLC | 85,000 | 50% |
| Bankmed, SAL | 69,700 | 41% |
| Mehmet Nazif Günel | 15,300 | 9% |
| Restatement effect | 148,164 | |
| Total | 318,164 | |

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16. RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

| | Legal Reserves | Retained Earnings | Total |
|----------------------------------|-----------------------|--------------------------|------------------|
| At January 1, 2008 | 5,207 | (116,887) | (111,680) |
| Net profit for the period (year) | - | 1,465 | 1,465 |
| At December 31, 2008 | 5,207 | (115,422) | (110,215) |
| Transfer to reserves | 42 | (42) | - |
| Net profit for the period (year) | - | 3,488 | 3,488 |
| At December 31, 2009 | 5,249 | (111,976) | (106,727) |

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.

Dividends Paid and Proposed

The Bank did not propose dividends per share subsequent to the balance sheet date. Profit appropriation will be resolved in the General Assembly meeting which has not yet been conducted as of the date of the accompanying financial statements are authorized for issue.

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17. RELATED PARTIES

A party is related to an entity if: the party controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries); has an interest in the entity that gives it significant influence over the entity or has joint control over the entity. Related parties also include individuals that are principal owners, management and members of the Bank's Board of Directors and their families and also post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Transactions with key management personnel:

Key management personnel comprise of the Bank's directors and key management executive officers.

In addition to their salaries, the Bank also provides non-cash benefits to directors.

The executive and non-executive members of Board of Directors and management received remuneration and fees are:

| | December 31, 2009 | December 31, 2008 |
|----------------------------------|------------------------------|------------------------------|
| Salaries and short-term benefits | 3,896 | 3,975 |

| December 31, 2009 | Cash loans | Non- cash loans | Deposits taken | Deposit with banks | Deposit from banks | Borrowings | Interest income & Commission income | Interest expense & Commission expense | Net operating income/ (expense) |
|------------------------------|-----------------------|--------------------------------|---------------------------|-----------------------------------|-----------------------------------|-------------------|--|--|--|
| | - | 38,799 | 241 | 37 | 491 | 15,055 | 173 | 2,125 | - |
| TOTAL | - | 38,799 | 241 | 37 | 491 | 15,055 | 173 | 2,125 | - |

| December 31, 2008 | Cash loans | Non- cash loans | Deposits taken | Deposit with banks | Deposit from banks | Borrowings | Interest income & Commission income | Interest expense & Commission expense | Net operating income/ (expense) |
|------------------------------|-----------------------|--------------------------------|---------------------------|-----------------------------------|-----------------------------------|-------------------|--|--|--|
| | - | 20,548 | 51,510 | 8 | 227 | 5,924 | 31 | 3,702 | - |
| TOTAL | - | 20,548 | 51,510 | 8 | 227 | 5,924 | 31 | 3,702 | - |

(*) As of December 31, 2009 and 2008, MNG Group companies are not qualified shareholders and they are not included in the tables above.

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18. INTEREST INCOME

| | 2009 | 2008 |
|--|----------------|----------------|
| Loans and receivables | 98,782 | 99,991 |
| Investment securities | 20,314 | 17,417 |
| Deposits with banks and other financial institutions | 399 | 1,393 |
| Other interest income | 5,834 | 4,247 |
| Total | 125,329 | 123,048 |

19. INTEREST EXPENSES

| | 2009 | 2008 |
|--|-----------------|-----------------|
| Customer deposits | (51,761) | (57,767) |
| Funds borrowed and deposits from other banks | (8,716) | (10,279) |
| Other interest expenses | (467) | (3,493) |
| Total | (60,944) | (71,539) |

20. OTHER INCOME

| | 2009 | 2008 |
|------------------------------------|-------------|--------------|
| Income from other banking services | 248 | 724 |
| Other | 314 | 1,028 |
| Total | 562 | 1,752 |

21. OPERATING EXPENSES

| | 2009 | 2008 |
|--------------------------------------|-----------------|-----------------|
| Staff costs | (33,528) | (34,699) |
| Defined benefit obligation | (530) | (531) |
| Unused vacation payments | (385) | (646) |
| Depreciation and amortization | (4,937) | (4,024) |
| Rent expenses | (6,624) | (5,507) |
| Vehicle expenses | (2,789) | (2,257) |
| Communication expenses | (1,852) | (1,652) |
| Cleaning expenses | (934) | (1,216) |
| Provision expense for bonus payments | (2,200) | - |
| Heating lightening expenses | (798) | (713) |
| Stationery expenses | (370) | (408) |
| Others | (9,076) | (7,062) |
| Total | (64,023) | (58,715) |

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22. COMMITMENTS AND CONTINGENCIES

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

| | December 31, 2009 | December 31, 2008 |
|-------------------------------|------------------------------|------------------------------|
| Letters of guarantee issued | 604,479 | 511,219 |
| Letters of credit | 72,819 | 103,938 |
| Acceptance credits | 9,525 | 14,299 |
| Other | 22,682 | 22,495 |
| Total non-cash loans | 709,505 | 651,951 |
| Other commitments | 79,931 | 29,196 |
| Credit card limit commitments | 1,708 | 1,865 |
| Total | 791,144 | 683,012 |

Letters of Guarantee Given to Istanbul Stock Exchange (ISE)

As of December 31, 2009, according to general requirements of the ISE, letters of guarantee amounting to USD 1 million had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

In the normal course of its operations, the Bank can be constantly faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. Total amount of the cases faced is TRY 253, EUR 192,500 and USD 626,800 (2008: TRY 322 and USD 626,800). The provision of TRY 998 for those cases was provided based on management estimates and professional advice (2008: TRY 362).

23. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Bank's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Bank are designed towards contributing to effective addressing of this matter reflecting the disciplined and prudent risk management culture of the Bank. The Bank Risk Management supervises the risk management process of the Bank.

The mission of Bank Risk Management function is to ensure together with executive management that risks taken by the Bank align with its policies and are compatible with its profitability and credit-rating objectives.

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23. FINANCIAL RISK MANAGEMENT (continued)

Organization of the Risk Management Function (continued)

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

Limits for Credit Risk, Market Risk, Economic Capital, VAR and stop-loss limits for Treasury positions are set by the Board of Directors. Economic capital calculations cover all types of risk classes; credit, market and operational risk. All limits are calculated and monitored by Risk Management Group and reported to senior management and Audit Committee.

Credit Risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and causes to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

The credit worthiness of the debtors of the loans and other receivables is monitored regularly as prescribed in the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 58.67% (2008: 64.12%).

The percentage of the top 100 non-cash loan clients of the Bank to the total loan portfolio is 65.60% (2008: 74.15%).

The percentage of the total cash and non-cash loans balances of the top 100 clients to the total of assets and off-balance sheet items is 39.61% (2008: 43.62%).

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23. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Derivatives:

The Bank maintains strict control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Credit-related commitments:

Credit-related commitments include commitments to extend credit, letters of credit, guarantees and acceptances, other irrevocable commitments which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Bank monitors the maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Bank sets out the following sound practices so as to minimize risk in credit-related commitments like in cash credits by,

- (i) establishing an appropriate credit risk environment;
- (ii) operating under a sound credit-granting process;
- (iii) maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk.

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23. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

An industry sector analysis of the Bank's financial assets, before taking into account collateral held or other credit enhancements is as follows;

| | December 31, 2009 | December 31, 2008 |
|--|------------------------------|------------------------------|
| Agricultural | 17,959 | 40,869 |
| Farming and Raising Livestock | 16,163 | 32,415 |
| Forestry, Wood and Paper | 1,786 | 8,317 |
| Fishery | 10 | 137 |
| Manufacturing | 631,876 | 608,752 |
| Mining and Quarry | 129,360 | 175,254 |
| Production | 501,879 | 432,366 |
| Electricity, Gas and Water | 637 | 1,132 |
| Construction | 312,483 | 264,805 |
| Services | 826,841 | 538,508 |
| Wholesale and Retail Trade | 174,893 | 103,465 |
| Hotel, Tourism, Food and Beverage Services | 70,227 | 25,414 |
| Transportation and Communication | 101,841 | 82,460 |
| Financial Institutions | 427,387 | 270,708 |
| Real Estate and Renting Services | 16,335 | 33,276 |
| Self-Employment Services | 23,456 | 16,585 |
| Education Services | 88 | 314 |
| Health and Social Services | 12,613 | 6,286 |
| Other | 42,756 | 140,536 |
| Total | 1,831,914 | 1,593,470 |

The table below shows the maximum exposure to credit risk for the components of the balance sheet;

| | December 31, 2009 | December 31, 2008 |
|--|------------------------------|------------------------------|
| Gross maximum exposure | | |
| Due from banks | 67,245 | 95,336 |
| Money market placements | 77,514 | 123,352 |
| Financial assets at fair value through profit and loss | 964 | 930 |
| Derivative financial instruments | 39 | 8 |
| Loans and receivables | 717,278 | 589,904 |
| Securities available-for-sale | 138,521 | 71,163 |
| Securities held-to-maturity | 39,209 | 29,765 |
| Total | 1,040,770 | 910,458 |
| Contingent liabilities | 709,505 | 651,951 |
| Commitments | 81,639 | 31,061 |
| Total | 791,144 | 683,012 |
| Total credit risk exposure | 1,831,914 | 1,593,470 |

As of December 31,2009; before taking into account collaterals and other credit enhancements, the maximum credit risk exposure to any client or counterparty for cash loans is TRY 23,498 Thousand and for non cash loans is TRY 35,352 Thousand (December 31, 2008: TRY 28,487 Thousand, TRY 47,889 Thousand). After taking into account collaterals and other credit enhancements, the maximum credit risk exposure to any client or counterparty for cash loans is TRY 35,352 Thousand for non-cash loans and there is no cash loan net of such protection (December 31,2008: TRY 28,487 Thousand for cash loans, TRY 47,889 Thousand for non-cash loans net of such protection).

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23. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of December 31, 2009 and 2008 is as follows;

| December 31, 2009 | Neither past due nor impaired | Past due or individually impaired | Total |
|--|--------------------------------------|--|----------------|
| Due from banks | 67,245 | - | 67,245 |
| Financial assets designated at fair value through profit or loss | 964 | - | 964 |
| Loans and receivables | | | |
| <i>Corporate lending</i> | 473,583 | 27,679 | 501,262 |
| <i>Small business lending</i> | 197,637 | 14,741 | 212,378 |
| <i>Consumer lending</i> | 3,178 | 460 | 3,638 |
| Total | 742,607 | 42,880 | 785,487 |
| Financial investments | | | |
| <i>Quoted – Government debt securities</i> | 177,651 | - | 177,651 |
| <i>Quoted – Other debt securities</i> | - | - | - |
| <i>Unquoted – Debt securities</i> | - | - | - |
| Total | 177,651 | - | 177,651 |
| Grand Total | 920,258 | 42,880 | 963,138 |

| December 31, 2008 | Neither past due nor impaired | Past due or individually impaired | Total |
|--|--------------------------------------|--|----------------|
| Due from banks | 95,336 | - | 95,336 |
| Financial assets designated at fair value through profit or loss | 930 | - | 930 |
| Loans and receivables | | | |
| <i>Corporate lending</i> | 443,914 | 12,754 | 456,668 |
| <i>Small business lending</i> | 116,076 | 8,203 | 124,279 |
| <i>Consumer lending</i> | 8,496 | 461 | 8,957 |
| Total | 664,752 | 21,418 | 686,170 |
| Financial investments | | | |
| <i>Quoted – Government debt securities</i> | 100,849 | - | 100,849 |
| <i>Quoted – Other debt securities</i> | - | - | - |
| <i>Unquoted – Debt securities</i> | - | - | - |
| Total | 100,849 | - | 100,849 |
| Grand Total | 765,601 | 21,418 | 787,019 |

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23. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

| | Internal/External Grades | Share of exposure % | December 31, 2009 | Share of exposure % | December 31, 2008 |
|-----------------------------|-----------------------------|------------------------|----------------------|------------------------|----------------------|
| High Grade | | | | | |
| <i>Risk rating class 1</i> | A+ Excellent | 0.37% | 2,633 | 2.01% | 11,909 |
| <i>Risk rating class 2</i> | A- Excellent | 4.54% | 32,495 | 0.34% | 1,997 |
| <i>Risk rating class 3</i> | B+ Very Good | 9.88% | 70,791 | 6.70% | 39,619 |
| <i>Risk rating class 4</i> | B- Very Good | 18.20% | 130,348 | 11.37% | 67,245 |
| Standard Grade | | | | | |
| <i>Risk rating class 5</i> | C+ Good | 13.66% | 97,845 | 18.62% | 110,113 |
| <i>Risk rating class 6</i> | C- Good | 20.52% | 146,943 | 15.67% | 92,671 |
| Sub Standard Grade | | | | | |
| <i>Risk rating class 7</i> | D+ Ordinary | 18.38% | 131,639 | 9.81% | 58,010 |
| <i>Risk rating class 8</i> | D- Ordinary | 8.06% | 57,694 | 20.85% | 123,323 |
| <i>Risk rating class 9</i> | E Bad | 5.37% | 38,466 | 12.23% | 72,341 |
| <i>Risk rating class 10</i> | F Very Bad | 0.15% | 1,095 | 0.91% | 5,388 |
| Unrated | | 0.87% | 6,285 | 1.49% | 8,740 |
| Total | | 100.00% | 716,234 | 100.00% | 591,356 |

The Bank uses 3 main factors for internal credit rating system. These are financial data, non-financial data and specialist decisions. Financial data consist of liquidity, financial structure, profitability, growth ratios and turnover rate. Non financial data consist of loan client business, relation with finance sector and sector analysis. The Bank measures the credit rating of companies by making comparisons regarding the financial data and non financial-data.

In the existing rating system, the collaterals assigned to loans are not taken into account in the rating. The information about customers with F, E and D- rating is shown below.

“F” rating;

Number of clients with F rating is 6 with O/S TRY 1,095 (2008: TRY 5,388; 16 clients).

4 of these 6 clients are granted against mortgage covering 84% of total “F” Rating Risk (2008: 10 clients; 39%).

“E” rating;

Number of clients with E rating is 30 and total O/S is TRY 38,466 (2008: TRY 72,341; 69 client).

12 of these clients are granted against mortgage with O/S risk of TRY 27,660 and covers 72% of total “E” Rating Risk. (2008: TRY 44,016; 18 clients; 61%).

4 of these clients are granted against Customer Check/Note with O/S risk of TRY 1,925 and covers 5% of total “E” Rating Risk (2008: TRY 5,428; 21 clients; 8%).

TRY 2,571 O/S risk bearing firm’s Parent Company rating is “B+” (7% of total “E” Rating Risk).

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23. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

“D” rating;

Number of clients with D- rating is 97 and total O/S is TRY 57,694 (2008: TRY 123,323; 122 clients).

30 of these clients are granted against mortgage with O/S risk of TRY 36,760 and covers 64% of “D-” Rating risk. (2008: TRY 23,612; 25 clients; 19%).

20 of these clients are granted against Customer Check/Note with O/S risk of TRY 6,485 and covers 11% of “D-” Rating risk (2008: TRY 18,669; 42 clients; 15%).

The Bank made an agreement with a consulting firm which is authorized distributor of Dun and Bradstreet Ltd to establish a new credit scoring model which is applicable to small business and commercial/corporate segments above and the design of the model is completed. After the application tests evaluation of the model, it started to be used by the beginning of the year 2009.

Carrying amount per class of financial assets whose terms have been renegotiated

| | December 31, 2009 | December 31, 2008 |
|-------------------------------|------------------------------|------------------------------|
| Loans and receivables | 1,330 | 129 |
| <i>Corporate lending</i> | 1,330 | 129 |
| <i>Small business lending</i> | - | - |
| <i>Consumer lending</i> | - | - |
| <i>Other</i> | - | - |
| Total | 1,330 | 129 |

Liquidity Risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely. Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank’s policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In this context, liquidity problem has not been faced in any period.

According to the general policies of the Bank, the matching of the maturity and interest rate structure of assets, and liabilities is always established within the asset liability management strategies. A positive difference is tried to be established between the yields of TRY and foreign currency assets and liabilities on the balance sheet and their costs.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions.

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23. FINANCIAL RISK MANAGEMENT (continued)

Analysis of financial liabilities by remaining contractual maturities;

| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 years | Over 5 years | Adjustments | Total |
|---|----------------------|-------------------|--------------------|------------------|---------------------|--------------------|----------------|
| As of December 31, 2009 | | | | | | | |
| Customers' deposits | 624,596 | 217,143 | 2,334 | 73 | - | (3,240) | 840,906 |
| Deposits from banks | 1,044 | - | - | - | - | - | 1,044 |
| Obligations under repurchase agreements | 15 | - | - | - | - | - | 15 |
| Funds borrowed | 18,396 | 5,777 | 25,609 | - | - | (904) | 48,878 |
| Total | 644,051 | 222,920 | 27,943 | 73 | - | (4,144) | 890,843 |
| As of December 31, 2008 | | | | | | | |
| Customers' deposits | 448,295 | 131,818 | 1,869 | 203 | - | (4,754) | 577,431 |
| Deposits from banks | 456 | - | - | - | - | - | 456 |
| Obligations under repurchase agreements | 7 | - | - | - | - | - | 7 |
| Funds borrowed | 10,313 | 8,445 | 190,671 | - | - | (5,692) | 203,737 |
| Total | 459,071 | 140,263 | 192,540 | 203 | - | (10,446) | 781,631 |

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23. FINANCIAL RISK MANAGEMENT (continued)

Analysis of contractual expiry by maturity of the Bank's derivative financial instruments;

| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 years | Over 5 years | Total |
|--------------------------------|----------------------|-------------------|--------------------|------------------|---------------------|--------------|
| As of December 31, 2009 | | | | | | |
| Net settled: | - | - | - | - | - | - |
| Interest rate swaps | - | - | - | - | - | - |
| Forward contracts | - | - | - | - | - | - |
| Gross settled: | 6,955 | - | - | - | - | 6,955 |
| Forward contracts | - | - | - | - | - | - |
| Currency swaps | 6,955 | - | - | - | - | 6,955 |
| Total | 6,955 | - | - | - | - | 6,955 |
| As of December 31, 2008 | | | | | | |
| Net settled: | - | - | - | - | - | - |
| Interest rate swaps | - | - | - | - | - | - |
| Forward contracts | - | - | - | - | - | - |
| Gross settled: | 104 | - | - | - | - | 104 |
| Forward contracts | 104 | - | - | - | - | 104 |
| Currency swaps | - | - | - | - | - | - |
| Total | 104 | - | - | - | - | 104 |

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23. FINANCIAL RISK MANAGEMENT (continued)

Net liquidity gap:

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates. Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Presentation of assets and liabilities according to their remaining maturity:

| | Demand | Up to 1 Month | 1 to 3 months | 3 months to 1 year | Over 1 year | Unallocated | Total |
|--|-----------------|----------------|------------------|--------------------|----------------|------------------|------------------|
| As at December 31, 2009 | | | | | | | |
| Assets: | | | | | | | |
| Cash and cash equivalents | 24,676 | 140,318 | - | - | - | - | 164,994 |
| Banks with Central bank | 14,761 | 24,751 | 8,789 | 2,026 | 7 | - | 50,334 |
| Financial assets at fair value through profit and loss | - | - | 65 | 596 | 303 | - | 964 |
| Derivative financial instruments | - | 39 | - | - | - | - | 39 |
| Loans and receivables (*) | - | 546,660 | 26,010 | 74,346 | 62,010 | 8,252 | 717,278 |
| Investment securities | - | 5,020 | 4,264 | 21,309 | 147,058 | 79 | 177,730 |
| Premises and equipment | - | - | - | - | - | 13,343 | 13,343 |
| Intangible assets | - | - | - | - | - | 1,702 | 1,702 |
| Deferred tax asset | - | - | - | - | - | 3,226 | 3,226 |
| Other assets | - | 11,015 | - | - | - | - | 11,015 |
| Total Assets | 39,437 | 727,803 | 39,128 | 98,277 | 209,378 | 26,602 | 1,140,625 |
| Liabilities: | | | | | | | |
| Customers' deposits | 81,860 | 541,628 | 215,068 | 2,278 | 72 | - | 840,906 |
| Deposits from banks | 1,044 | - | - | - | - | - | 1,044 |
| Obligations under repurchase agreements | - | 15 | - | - | - | - | 15 |
| Derivative financial instruments | - | - | - | - | - | - | - |
| Funds borrowed | - | 18,365 | 5,699 | 24,814 | - | - | 48,878 |
| Other liabilities and provisions | - | 20,799 | 233 | 587 | 10 | 228,153 | 249,782 |
| Total Liabilities | 82,904 | 580,807 | 221,000 | 27,679 | 82 | 228,153 | 1,140,625 |
| Net liquidity gap | (43,467) | 146,996 | (181,872) | 70,598 | 209,296 | (201,551) | - |
| As at December 31, 2008 | | | | | | | |
| Total assets | 51,804 | 708,250 | 58,808 | 100,896 | 73,526 | 23,519 | 1,016,803 |
| Total liabilities | 51,795 | 425,844 | 138,113 | 188,024 | 1,109 | 211,918 | 1,016,803 |
| Net liquidity gap | 9 | 282,406 | (79,305) | (87,128) | 72,417 | (188,399) | - |

(*) Revolving loans are presented in up to 1 month column.

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23. FINANCIAL RISK MANAGEMENT (continued)

Market Risk

The Bank has established market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on “Measurement and Assessment of Capital Adequacy of Banks” issued on Official Gazette dated November 1, 2006 numbered 26333.

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to VAR calculated by using the standardised method (summarised below) is taken into consideration. Beside the standardised method, market risk (VAR) is calculated by using internal model as supported by scenario analysis and stress tests. VAR is calculated daily by two different methods which are historic simulation, parametric method, and these results are also reported daily to the management.

VaR Analysis

The VaR risk measure estimates the potential loss in pre-taxation profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by the Bank reflects the 99% probability that the daily loss will not exceed the reported VaR.

VaR methodologies employed to calculate daily risk numbers include the historical and variance covariance approaches.

While VaR captures the Bank’s exposure under normal market conditions, sensitivity and scenario analysis, and in particular stress testing, is used to add insight to the possible outcomes under abnormal market conditions. The Bank assesses various stress scenarios to measure the impact on portfolio values of extreme moves in markets, based on historical experience as well as hypothetical scenarios. The stress-testing methodology assumes that all market factors move adversely at the same time and that no actions are taken during the stress events to mitigate risk, and consequently reflects the decline in liquidity that frequently accompanies market shocks.

VAR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

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23. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standardised method.

The Board of Directors sets limits for the positions, which are followed up daily. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

As an element of the Bank's risk management strategies, foreign currency liabilities are economically hedged against exchange rate risk by derivative instruments.

The carrying amount of the Bank's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

| | EURO | USD | Other FC | Total |
|---------------------------------------|----------------|----------------|-----------------|----------------|
| As of December 31, 2009 | | | | |
| Assets | | | | |
| Cash and cash equivalents | 10,602 | 72,599 | 1,913 | 85,114 |
| Banks with Central bank | 14,315 | 21,256 | - | 35,571 |
| Loans and receivables (*) | 142,909 | 132,010 | - | 274,919 |
| Investment securities | - | 82 | - | 82 |
| Other assets | - | 194 | - | 194 |
| Total assets | 167,826 | 226,141 | 1,913 | 395,880 |
| Liabilities: | | | | |
| Customers' deposits | 120,296 | 233,936 | 333 | 354,565 |
| Deposits from banks | 41 | 6 | 488 | 535 |
| Funds borrowed | 37,461 | 1,487 | - | 38,948 |
| Other liabilities and provisions | 1,168 | 537 | 7 | 1,712 |
| Total Liabilities | 158,966 | 235,966 | 828 | 395,760 |
| Net on balance sheet position | 8,860 | (9,825) | 1,085 | 120 |
| Net off balance sheet position | (7,704) | 7,745 | - | 41 |
| Derivative financial assets | 2,675 | 10,427 | - | 13,102 |
| Derivative financial liabilities | (10,379) | (2,682) | - | (13,061) |
| As of December 31, 2008 | | | | |
| Total assets | 168,547 | 273,016 | 1,168 | 442,731 |
| Total liabilities | 169,749 | 275,221 | 292 | 445,262 |
| Net on balance sheet position | (1,202) | (2,205) | 876 | (2,531) |
| Net off balance sheet position | 112 | - | - | 112 |
| Derivative financial assets | 112 | - | - | 112 |
| Derivative financial liabilities | - | - | - | - |

(*) Foreign currency indexed loans amounting to TRY 103,735 (2008: TRY 144,950) are included in the loan portfolio.

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23. FINANCIAL RISK MANAGEMENT (continued)

Foreign currency sensitivity

The Bank is mainly exposed to EUR and USD currencies.

The following table details the Bank's sensitivity to a 10% increase or decrease in the TRY against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. Positive/ (negative) number indicates a change in profit or loss and other equity where USD and EUR increase/ decrease %10 against TRY.

| | Change in currency rate in % | Effect on profit or loss | | Effect on equity | |
|-----|---------------------------------|--------------------------|----------------------|----------------------|----------------------|
| | | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| USD | 10 | (208) | (221) | - | - |
| EUR | 10 | 116 | (109) | - | - |

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23. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standardized method and included in the market risk for capital adequacy.

Risk Management Department performs duration, maturity and sensitivity analysis to measure the effect of interest rate volatility and report to the Asset-Liability Committee

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank does not permit maturity mismatches or imposes limits on mismatch, a significant interest rate risk exposure is not expected.

Interest rate sensitivity

If interest rates had been increased by 0.5% in TRY and by 0.5% in FC and all other variables were held constant, the Bank's:

- Net profit would change by TRY 43. The main reason of this is fair value change of held for trading government bonds that the Bank holds. (2008: TRY 739)

Interest rate swap contracts

The Bank does not have any interest rate swap contracts outstanding as of balance sheet date.

Other Price Risks

The Bank does not invest in share certificates quoted on a stock exchange hence it is not subject to share price risk.

Capital Adequacy

To monitor the adequacy of its capital, the Bank uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if a bank operates in offshore markets). These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of December 31, 2009, its capital adequacy ratio on an unconsolidated basis is above 12%.

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23. FINANCIAL RISK MANAGEMENT (continued)

Fair Values

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

| | Carrying value | | Fair value | |
|--|-------------------|-------------------|-------------------|-------------------|
| | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| Financial assets | 1,040,770 | 910,458 | 1,042,224 | 908,429 |
| Money market placements | 77,514 | 123,352 | 77,514 | 123,352 |
| Deposits with banks | 67,245 | 95,336 | 67,245 | 95,336 |
| Financial assets at fair value through profit and loss | 964 | 930 | 964 | 930 |
| Derivative financial instruments | 39 | 8 | 39 | 8 |
| Available-for-sale financial assets | 138,521 | 71,163 | 138,521 | 71,163 |
| Loans and receivables | 717,278 | 589,904 | 717,649 | 587,902 |
| Held-to-maturity investments | 39,209 | 29,765 | 40,292 | 29,738 |
| Financial liabilities | 890,843 | 781,631 | 890,998 | 783,164 |
| Customers' deposits | 840,906 | 577,431 | 841,061 | 578,964 |
| Deposits from banks | 1,044 | 456 | 1,044 | 456 |
| Obligations under repurchase agreements | 15 | 7 | 15 | 7 |
| Funds borrowed | 48,878 | 203,737 | 48,878 | 203,737 |

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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23. FINANCIAL RISK MANAGEMENT (continued)

Fair Value of Financial Instruments (continued)

| December 31, 2009 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|--------------|
| Financial Assets | | | | |
| Money market placements | - | 77,514 | - | 77,514 |
| Deposits with banks | - | 67,245 | - | 67,245 |
| Financial assets at fair value through profit and loss | 964 | - | - | 964 |
| <i>Debt instruments</i> | 964 | - | - | 964 |
| Derivative financial instruments | - | 39 | - | 39 |
| Available-for-sale financial assets | 138,442 | 79 | - | 138,521 |
| <i>Debt instruments</i> | 138,442 | - | - | 138,442 |
| <i>Available-for-sale securities (*)</i> | - | 79 | - | 79 |
| Loans and receivables | - | 717,649 | - | 717,649 |
| Held-to-maturity investments | 40,292 | - | - | 40,292 |
| <i>Debt instruments</i> | 40,292 | - | - | 40,292 |
| Financial Liabilities | | | | |
| Customers' deposits | - | 841,061 | - | 841,061 |
| Deposits from banks | - | 1,044 | - | 1,044 |
| Obligations under repurchase agreements | - | 15 | - | 15 |
| Derivative financial instruments | - | - | - | - |
| Funds borrowed | - | 48,878 | - | 48,878 |

| December 31, 2008 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|--------------|
| Financial Assets | | | | |
| Money market placements | - | 123,352 | - | 123,352 |
| Deposits with banks | - | 95,336 | - | 95,336 |
| Financial assets at fair value through profit and loss | 930 | - | - | 930 |
| <i>Debt instruments</i> | 930 | - | - | 930 |
| Derivative financial instruments | - | 8 | - | 8 |
| Available-for-sale financial assets | 71,084 | 79 | - | 71,163 |
| <i>Debt instruments</i> | 71,084 | - | - | 71,084 |
| <i>Available-for-sale securities (*)</i> | - | 79 | - | 79 |
| Loans and receivables | - | 587,902 | - | 587,902 |
| Held-to-maturity investments | 29,738 | - | - | 29,738 |
| <i>Debt instruments</i> | 29,738 | - | - | 29,738 |
| Financial Liabilities | | | | |
| Customers' deposits | - | 578,964 | - | 578,964 |
| Deposits from banks | - | 456 | - | 456 |
| Obligations under repurchase agreements | - | 7 | - | 7 |
| Funds borrowed | - | 203,737 | - | 203,737 |

(*) Available-for-sale securities in Level 2 represent the Bank's equity holdings in the companies, shares of which are not publicly traded and are reflected at cost less reserve for impairment.

24. SUBSEQUENT EVENTS

None