TURKLAND BANK
ANONİM ŞİRKETİ

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2010

Independent auditor's report

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

We have audited the accompanying financial statements of Turkland Bank A.Ş. (the Bank), which comprise the statement of financial position as at December 31, 2010 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 and for such internal controls as management determines is necessary to enable preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the Bank for the year ended December 31, 2009 prepared in accordance with International Financial Reporting Standards were audited by another auditor who expressed an audit report with an unqualified opinion on those statements on March 2, 2010.

İstanbul, March 3, 2011

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TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

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

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Cash and cash equivalents	3	109,239	164,994
Balances with Central Bank	4	98,110	50,334
Financial assets at fair value through profit or loss	5	432	964
Derivative financial instruments	14	12	39
Loans and advances	6	995,783	717,278
Investment securities:	5		
- Available-for-sale		220,118	138,521
- Held-to-maturity		47,882	39,209
Premises and equipment	7	14,081	13,343
Intangible assets	8	864	1,702
Deferred tax asset	13	2,278	3,226
Other assets	9	14,748	11,015
Total assets		**1,503,547**	**1,140,625**
LIABILITIES AND EQUITY			
LIABILITIES			
Customers’ deposits	10	1,137,332	840,906
Deposits from other banks	10	5,749	1,044
Obligations under repurchase agreements	5	17	15
Derivative financial instruments		-	-
Funds borrowed	11	92,264	48,878
Other liabilities and provisions	12	44,635	32,108
Income taxes payable	13	557	-
Total liabilities		**1,280,554**	**922,951**
EQUITY			
Share capital issued	15	318,164	318,164
Unrealized gains/(losses) on available-for-sale investments, net of tax		7,746	6,237
Reserves	16	7,603	5,249
Accumulated losses	16	(110,520)	(111,976)
Total equity		**222,993**	**217,674**
Total liabilities and equity		**1,503,547**	**1,140,625**

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

TURKLAND BANK ANONİM ŞİRKETİ
INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2010

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

	Notes	January 1 – December 31, 2010	January 1 – December 31, 2009
Interest income	18	114,917	125,329
Interest expenses	19	(62,387)	(60,944)
Net interest income		**52,530**	**64,385**
Fees and commissions and other operating income			
Fees and commissions income	21	17,291	13,486
Fees and commissions expenses	21	(819)	(757)
Net fees and commissions income		**16,472**	**12,729**
Trading gain/(loss), net	22	(1,909)	6,168
Provisions for impairment of loans and receivables	6-12	(8,405)	(19,776)
Foreign exchange gain / (loss), net		10,354	4,141
Other income	20	4,314	562
Operating expenses	23	(68,006)	(64,023)
Operating profit		**5,350**	**4,186**
Dividend income		2	7
Profit/ (loss) before income tax		**5,352**	**4,193**
Income tax – current	13	(972)	(3,240)
Income tax – deferred	13	(570)	2,535
Net profit from continuing operations		**3,810**	**3,488**

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, 2010

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

	January 1-December 31, 2010	January 1-December 31, 2009
Net profit for the year	**3,810**	**3,488**
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	1,509	5,629
Net change in fair values	10,581	16,828
Net amount transferred to income	(8,694)	(9,792)
Deferred tax on valuation differences	(378)	(1,407)
Other comprehensive income for the year, net of tax	**1,509**	**5,629**
Total comprehensive income for the year	**5,319**	**9,117**

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

TURKLAND BANK ANONİM ŞİRKETİ
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

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

	Notes	Share capital issued	Adjustment to share capital	Legal reserves, statutory reserves, extraordinary reserves (*)	Unrealized gains/(losses) on available-for-sale investments, net of tax	Accumulated losses	Total
At January 1, 2009		**170,000**	**148,164**	**5,207**	**608**	**(115,422)**	**208,557**
Total comprehensive income for the year		-	-	-	5,629	3,488	9,117
Transfer to legal reserves		-	-	42	-	(42)	-
At December 31, 2009		**170,000**	**148,164**	**5,249**	**6,237**	**(111,976)**	**217,674**
At January 1, 2010		**170,000**	**148,164**	**5,249**	**6,237**	**(111,976)**	**217,674**
Total comprehensive income for the year		-	-	-	1,509	3,810	5,319
Transfer to legal reserves, statutory reserves and extraordinary reserves		-	-	2,354	-	(2,354)	-
At December 31, 2010	**16**	**170,000**	**148,164**	**7,603**	**7,746**	**(110,520)**	**222,993**

(*) As of December 31, 2010 the Bank's legal reserves amount to TRY 666, extraordinary reserves amount to TRY 10,203 and other reserves amount to TRY 28,178 and accumulated deficit amounts to TRY (31,444).

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, 2010

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

	Notes	January 1 – December 31, 2010	January 1 – December 31, 2009
Cash flow from operating activities			
Net profit for the year		3,810	3,488
Adjustments for:			
Depreciation and amortization	7-8-23	5,233	4,937
Provision for impairment of loans and advances		8,405	19,776
Provision for employment termination benefits	12	963	530
Other provision expenses		1,388	3,221
Foreign exchange gain /(loss)		(2,842)	1,908
Taxation	13	1,542	705
Accrued interest, net		(3,808)	12,266
Operating profit before changes in operating assets/liabilities		**14,691**	**46,831**
Changes in operating assets and liabilities:			
Net (increase)/decrease in reserve deposits with Central Bank		(17,789)	6,299
Net (increase)/decrease in other assets		(4,040)	2,561
Net(increase)/decrease in trading securities		465	(24,000)
Net (increase) in loans and advances		(289,490)	(160,753)
Net increase in deposits		301,614	264,073
Net increase/(decrease) in other creditors, taxes & liabilities		10,532	(1,680)
Income taxes paid		(415)	(5,192)
Employment termination benefits paid	12	(190)	(92)
Net cash provided by operating activities		**15,378**	**128,047**
Cash flows from investing activities			
(Additions) to premises and equipment	7	(4,315)	(1,299)
(Additions) to intangible assets	8	(392)	(332)
Cash paid for purchase of financial assets available-for-sale		(366,261)	(528,993)
Proceeds from sale of financial assets available-for-sale		290,474	491,136
Net book value of disposed premises and equipment		1,340	109
Cash paid for purchase of held-to-maturity investment securities		(26,212)	(37,178)
Proceeds from redemption of held-to-maturity investment securities		18,499	32,140
Net cash used in investing activities		**(86,867)**	**(44,417)**
Cash flows from financing activities			
Issue of share capital		-	-
Repayments of funds borrowed		(210,300)	-
Proceeds from funds borrowed		253,475	(151,698)
Net cash provided by / (used in) financing activities		**43,175**	**(151,698)**
Effect of change in foreign exchange rates on cash and cash equivalents		**2,842**	**(1,908)**
Net (decrease)/increase in cash & cash equivalents		**(25,472)**	**(69,976)**
Cash and cash equivalents at the beginning of the year		179,453	249,429
Cash and cash equivalents at the end of the year	3	**153,981**	**179,453**

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

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 Günal (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 PLC and BankMedSAL relating to the sale of 91% of MNG Bank shares in mid-2006 and this agreement was approved by the 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 Günal retained 9% of the shares. Transfer of the Bank shares was realized on January 29, 2007. The title of the Bank was 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.

On April 3, 2007, the title of the Bank was registered as "Turkland Bank Anonim Şirketi".

According to the Share Sale and Purchase Agreement and Board of Directors' decision dated February 26, 2010 and July 15, 2010, respectively, Mehmet Nazif Günal's 153 million shares with TRY 15,300 nominal value were purchased by BankMed SAL. As of July 22, 2010 the share transfer was realized.

As of December 31, 2010, the Bank has 27 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 3, 2011. 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.

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.

The accompanying financial statements are based on the statutory records which are maintained under the historical cost convention, except for trading securities, derivatives and available-for-sale securities which are 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, financial performance and cash flows for the period have been made in the accompanying financial statements.

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.

In the process of applying the Bank's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Bank’s management has made an assessment of the Bank’s ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower’s financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is ‘significant’ or ‘prolonged’ requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses if any, to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Employee termination benefits

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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.

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 prepared in accordance with IFRSs are not required to be adjusted further for hyperinflationary accounting.

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 reporting 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, 2008	2.1451	1.5345
December 31, 2009	2.1401	1.4953
December 31, 2010	2.0687	1.5442

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 income statement.

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, which is generally three years.

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 or 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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 financial assets 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 25.

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 judgment. 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 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.

c) Loans and receivables

Loans and advances to customers, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;

- Those that the Bank, upon initial recognition, designates as available-for-sale; or

- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and advances to customers are subsequently measured at amortized cost using the effective interest rate, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in interest income in the income statement. The losses arising from impairment are recognized in the income statement in provisions for impairment of loans and receivables.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of Financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

Loans together with the associated allowance are written-off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

2. 9 Derecognition of Financial Assets and Financial Liabilities

(i) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

-The rights to receive cash flows from the asset have expired; or

-The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement;
and either:

-the Bank has transferred substantially all the risks and rewards of the asset,
-or the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.10 Financial Guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in “Provisions for impairment of loans and receivables”. The premium received is recognized in the income statement in ‘Net fees and commission income’ on a straight line basis over the life of the guarantee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if and only if 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.

2.12 Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and balances with Central Bank (excluding obligatory reserve deposits), deposits with banks and other financial institutions, other money market placements and funds lent under resale agreements with an original maturity of three months or less.

2.13 Impairment of Non-financial Assets

At each financial statement of position, 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.

2.14 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 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.

2.16 Employee Benefits

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, 2010 is TRY 2,173 (December 31, 2009: TRY 1,400)

Defined Contribution Plans:

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

2.17 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources 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.

2.18 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 statement of financial position 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 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. The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fees for various banking services are recorded as income when collected.

2.20 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 within 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 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 observable market data prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the income statement. Unrealized gains and losses on these instruments are not deductible for current tax purposes.

2.22 Fiduciary Assets

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

2.23 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, 2010. The adoption of these new and amended Standards and Interpretations has not resulted in any significant changes to the Bank's accounting policies:

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items
- IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
- Improvements to IFRSs (May 2008) All amendments issued are effective as at 31 December 2009, apart from the following: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity retains a non-controlling interest after the sale transaction. The amendment is applied prospectively.
- Improvements to IFRSs (April 2009)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Adoption of New and Revised Standards (continued)

- Amendments resulting from improvements to IFRSs (April 2009) to the following standards which had or did not have an effect on the accounting policies, financial position or performance of the Bank

  - IFRS 2 Share-based Payment
  - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
  - IFRS 8 Operating Segment Information
  - IAS 1 Presentation of Financial Statements
  - IAS 7 Statement of Cash Flows
  - IAS 17 Leases
  - IAS 18 Revenue
  - IAS 36 Impairment of Assets
  - IAS 38 Intangible Assets
  - IAS 39 Financial Instruments: Recognition and Measurement
  - IFRIC 9 Reassessment of Embedded Derivatives
  - IFRIC 16 Hedges of a Net Investment in a Foreign Operation

Standards issued but not yet effective and not early adopted

- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

  The interpretation is effective for annual periods beginning on or after July 1, 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The Bank does not expect that the amendment will have impact on the financial position or performance of the Bank.

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**

  The amendment is effective for annual periods beginning on or after January 1, 2011. The purpose of this amendment was to permit entities to recognize as an asset some voluntary prepayments for minimum funding contributions. Earlier application is permitted and must be applied retrospectively. The Bank does not expect that the amendment will have impact on the financial position or performance of the Bank

- **IFRS 9 Financial Instruments – Phase 1 financial assets and liabilities, classification and measurement**

  The new standard is effective for annual periods beginning on or after January 1, 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets and liabilities. Early adoption is permitted. The Bank is in the process of assessing the impact of the new standard on the financial position and performance of the Bank.

- **IAS 32 Classification on Rights Issues (Amended)**

  The amendment is effective for annual periods beginning on or after February 1, 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively. The Bank does not expect that the amendment will have impact on the financial position or performance of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Adoption of New and Revised Standards (continued)

- **IAS 24 Related Party Disclosures (Revised)**

  The revision is effective for annual periods beginning on or after January 1, 2011.This revision relates to the judgment which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively The Bank does not expect that the amendment will have impact on the financial position or performance of the Bank.

- **IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for the first time adopters (Amended)**

  The amendment is effective for annual periods beginning on or after July 1, 2010. This amendment was issued on January 28, 2010 and exempts first-time adopters of IFRSs from providing the additional disclosures introduced by IFRS 7 on March 5, 2009.

- **In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial years beginning July 1, 2010. Early application is permitted in all.**

  - **IFRS 1 First-time adoption,** effective for annual periods beginning on or after January 1, 2011.
  - **IFRS 3 Business Combinations,** effective for annual periods beginning on or after July 1, 2010
  - **IFRS 7 Financial Instruments: Disclosures,** effective for annual periods beginning on or after January 1, 2011
  - **IAS 1 Presentation of Financial Statements,** effective for annual periods beginning on or after January 1, 2011
  - **IAS 27 Consolidated and Separate Financial Statements,** effective for annual periods beginning on or after July 1, 2010
  - **IAS 34 Interim Financial Reporting,** effective for annual periods beginning on or after January 1, 2011
  - **IFRIC 13 Customer Loyalty Programmes,** effective for annual periods beginning on or after January 1, 2011

- **IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)**

  The amendment is effective for annual periods beginning on or after July 1, 2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- **IAS 12 Income Taxes: Recovery of Underlying Assets (Amended)**

The amendment is effective for annual periods beginning on or after January 1, 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be through sale. As a result of the amendments, SIC-21 Income Taxes—Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The Bank does not expect that this amendment will have an impact on the financial position or performance of the Bank.

3. CASH AND CASH EQUIVALENTS

	December 31, 2010	December 31, 2009
Cash on hand	15,300	20,235
Due from banks	79,936	67,245
Money market placements and funds lent under resale agreements	14,003	77,514
Cash and cash equivalents	**109,239**	**164,994**

	December 31, 2010	December 31, 2009
Demand deposits-Turkish Lira	22	4
Demand deposits- Foreign Currency	1,656	4,437
Time bank deposits-Turkish Lira	-	-
Time bank deposits- Foreign Currency	78,258	62,804
Due from banks	**79,936**	**67,245**

The effective interest rates on time bank deposits are as follows:

	December 31, 2010		December 31, 2009	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Time bank deposits	-	0.2%-0.5%	-	0.1%-0.9%

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

3. CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents included in the statements of cash flows for the year ended December 31, 2010 and 2009 are as follows:

	December 31, 2010	December 31, 2009
Cash and cash equivalents	109,239	164,994
Balances with Central Bank (Note 4)	44,750	14,763
Less: income accruals	(8)	(304)
Cash and cash equivalents	**153,981**	**179,453**

4. BALANCES WITH CENTRAL BANK

	December 31, 2010	December 31, 2009
Balances with Central Bank	44,750	14,763
Reserve deposits	53,360	35,571
Balances with Central Bank	**98,110**	**50,334**

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 liabilities. 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.

In accordance with "Communiqué regarding the reserve requirements" issued by the Central Bank, the banks operating in Turkey are required to place reserves at CBRT at a rate of 6% for their TRY liabilities and 11% as USD and/or EUR for their foreign currency liabilities. As of October 1, 2010 interest for reserve deposits was abolished (December 31, 2009: 5.2% for TRY deposits).

5. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

	December 31, 2010	December 31, 2009
Debt instruments		
Turkish treasury bills	432	964
Total financial assets at fair value through profit and loss	**432**	**964**

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

5. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Investment securities:

	December 31, 2010	December 31, 2009
Available- for-sale securities-Quoted		
Turkish treasury bills	181,124	138,360
Eurobonds issued by the Turkish government	38,915	82
Total available for sale securities-Quoted	**220,039**	**138,442**
Available- for-sale securities-Unquoted		
Equity instruments	79	79
Total available for sale securities-Unquoted	**79**	**79**
Total available for sale securities	**220,118**	**138,521**
Held-to-maturity securities-Quoted		
Turkish government bonds	47,882	39,209
Total held-to-maturity securities	**47,882**	**39,209**
Total investment securities	**268,000**	**177,730**

In line with the accounting policy of the Bank all unquoted available for sale equities are recorded at fair value except for the Bank's investment of TRY 79 which is recorded at cost since its fair value cannot be reliably estimated (December 31, 2009: TRY 79).

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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, 2010	December 31, 2009
Financial assets at fair value through profit and loss	20	18
Available –for- sale securities	-	-
Held –to- maturity securities	-	-
Carrying value of securities under repurchase agreements	**20**	**18**
Related liability	**17**	**15**

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

5. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

Repurchase agreements mature within one month.

Available-for-sale securities given as collateral for İstanbul Stock Exchange and Foreign Exchange Markets are TRY 12,515 and TRY 10,559, respectively (December 31, 2009: TRY 4,264 İstanbul Stock Exchange Market)

Held-to-maturity investments with carrying values of TRY 6,621, TRY 3,092 and TRY 15,977 are provided as collateral for İstanbul Stock Exchange, Foreign Exchange Market and Interbank Money Market; respectively (December 31, 2009: TRY 17,143, TRY 7,459, TRY 14,607).

TRY 142,938 (December 31, 2009: TRY 66,069) of debt securities included in the financial assets at fair value through profit or loss and investment securities have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

The interest rates for floating TL investment securities are between 2% and 5% .The interest rates for fixed rate TL and foreign currency investment securities are between 5.25% and 7% and between 2.81% and 5.94%, respectively.

6. LOANS AND ADVANCES

	December 31, 2010			December 31, 2009		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Corporate loans	632,080	4.56%-63%	2.21%-13%	500,570	4.0%-63%	3.97%-13%
Small business loans	335,411	5.25%-63%	2.44%-10.80%	212,156	3.1%-63%	3.86%-13%
Consumer loans	12,741	1.92%-63%	-	3,508	7.2%-63%	-
Total performing loans	**980,232**			**716,234**		
Non-performing loans	40,136			33,778		
Less: Specific reserve for impairment	(12,503)			(25,526)		
Less: Portfolio reserve for impairment	(12,082)			(7,208)		
Total	**995,783**			**717,278**		

The above distribution has been made based on the business lines.

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

6. LOANS AND ADVANCES (continued)

	December 31, 2010	December 31, 2009
Corporate, commercial and small business loans	962,974	707,723
- Export loans	226,896	200,314
- Loans given to financial sector	8,496	5,421
- Foreign loans	88	79
- Discount notes	232	-
- Other	727,262	501,909
Consumer loans	17,200	8,364
Credit cards	58	147
Performing loans	**980,232**	**716,234**
Non-performing loans	40,136	33,778
Total loans and advances to customers	**1,020,368**	**750,012**
Provision for impairment	(24,585)	(32,734)
- Specific allowance for impairment	(12,503)	(25,526)
- Collective allowance for impairment	(12,082)	(7,208)
Net loans and advances to customers	**995,783**	**717,278**

The above distribution has been made based on the account codes.

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, 2010	**Corporate**	**Small Business**	**Consumer**	**Total**
Neither past due nor impaired	620,415	318,549	12,332	951,296
Past due not impaired	11,665	16,862	409	28,936
Individually impaired	31,237	8,681	218	40,136
Total Gross	663,317	344,092	12,959	1,020,368
Less: allowance for individually impaired loans	(9,621)	(2,664)	(218)	(12,503)
Less: allowance for collectively impaired loans	(7,838)	(4,097)	(147)	(12,082)
Total Allowance for impairment	(17,459)	(6,761)	(365)	(24,585)
Total net				**995,783**

December 31, 2009	**Corporate**	**Small Business**	**Consumer**	**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**

The above distribution has been made based on the business lines.

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

6. LOANS AND RECEIVABLES (continued)

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

December 31, 2010	**Total**	**December 31, 2009**	**Total**
At January 1, 2010	25,526	At January 1, 2009	13,468
Charge for the year	6,980	Charge for the year	13,371
Sales of non-performing loans (NPL)(*)	(16,480)	Recoveries	(941)
Recoveries	(4,620)	Amounts written off	(372)
Amounts written off	(10)		
Reclassification from other liabilities and provisions, net of recoveries	1,107		
At December 31, 2010	**12,503**	**At December 31, 2009**	**25,526**

(*) According to the Board of Directors decision numbered 488 and dated October 21, 2010, non – performing loans with a principal amount of TRY 16,667 and loans that were previously written-off amounting to TRY 1,092 are sold for an amount of TRY 1,675. TRY 16,480 of provision related to such sold has been reversed.

Movements in the allowance for impaired loans:

	December 31, 2010	**December 31, 2009**
At January 1	32,734	16,942
Reclassification from other liabilities and provisions, net of recoveries	1,368	-
Provision for impairment	11,593	17,105
Recoveries	(4,620)	(941)
Provision net recoveries	6,973	16,164
Loans sold and written off during the year	(16,490)	(372)
At December 31	**24,585**	**32,734**

The fair value of collaterals that the Bank holds relating to loans individually determined to be impaired as of December 31, 2010 is TRY 41,617 (December 31, 2009: TRY 13,819).

TRY 1,761 of properties are transferred to the ownership of the Bank during 2010 and in the same period TRY 571 of such amount has been sold. There are no other credit enhancements obtained during the period (December 31, 2009: None).

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

December 31, 2010	**Less than 30 days**	**31-60 days**	**61-90 days**	**More than 91 days**	**Total**
Loans and receivables					
Corporate lending	7,666	2,448	1,551	-	11,665
Small business lending	16,282	409	171	-	16,862
Consumer lending	216	193	-	-	409
Total	**24,164**	**3,050**	**1,722**	**-**	**28,936**

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

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

6. LOANS AND RECEIVABLES (continued)

The fair value of collaterals that the Bank held as of December 31, 2010 is TRY 53,252 (December 31, 2009: TRY 71,399) for the total aggregate amount of gross past due but not yet impaired loans and advances to customers.

Loans and advances amounting to TRY 646,415 are revolving loans that have maturity up to one month and have floating interest rates (December 31, 2009: TRY 477,990) and the remaining have fixed interest rates.

7. PREMISES AND EQUIPMENT

	Machinery and Equipment	Furniture and Fixture	Vehicles	Leasehold Improvements	Others	Total
Acquisition Cost						
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
Accumulated Depreciation						
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**
Acquisition Cost						
At January 1, 2010	3,493	1,775	-	9,600	12,670	27,538
Additions	588	365	-	2,309	2,819	6,081
Disposals	(18)	(50)	-	(267)	(1,421)	(1,756)
At December 31, 2010	4,063	2,090	-	11,642	14,068	31,863
Accumulated Depreciation						
At January 1, 2010	2,420	745	-	3,387	7,643	14,195
Charge for the year	464	331	-	2,083	1,125	4,003
Disposals	(18)	(49)	-	(253)	(96)	(416)
Write-off	-	-	-	-	-	-
At December 31, 2010	2,866	1,027		5,217	8,672	17,782
At December 31, 2010	**1,197**	**1,063**	**-**	**6,425**	**5,396**	**14,081**

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

8. INTANGIBLE ASSETS

	Software	Total
Acquisition Cost		
At January 1, 2009	7,361	7,361
Additions	332	332
At December 31, 2009	7,693	7,693
Accumulated Amortization		
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**
Acquisition Cost		
At January 1, 2010	7,693	7,693
Additions	392	392
At December 31, 2010	8,085	8,085
Accumulated Amortization		
At January 1, 2010	5,991	5,991
Charge for the year	1,230	1,230
At December 31, 2010	7,221	7,221
At December 31, 2010	**864**	**864**

9. OTHER ASSETS

	December 31, 2010	December 31, 2009
Prepaid expenses	1,432	1,466
Advances	200	357
Settlements account	9,816	6,302
Other	3,300	2,890
Total	**14,748**	**11,015**

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

10. DEPOSITS

Deposits from banks	**December 31, 2010**			**December 31, 2009**		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Demand	5,749	-	-	1,044	-	-
Total	**5,749**			**1,044**		

Customers' deposits	**December 31, 2010**			**December 31, 2009**		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Saving						
Demand	61,088	-	-	43,610	-	-
Time	827,709	5.00%-9.5%	0.75%-3.9%	677,342	5.00%-13.1%	1.00%-5.50%
	888,797			720,952		
Commercial and other						
Demand	49,991	-	-	38,250	-	-
Time	198,544	5.00%-9.5%	0.75%-3.9%	81,704	3.00%-10.06%	1%-3.65%
	248,535			119,954		
Total	**1,137,332**			**840,906**		

All deposits have fixed interest for the years ended December 31, 2010 and 2009.

11. FUNDS BORROWED

	December 31, 2010	**December 31, 2009**
Borrowings	92,264	48,878
Total	**92,264**	**48,878**

	December 31, 2010		
	Amount	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**
Short-term			
Fixed interest	74,953	7%-9%	2%-6%
Floating interest	-	-	-
Medium/long-term	-	-	-
Fixed interest	17,311	-	4%
Floating interest	-	-	-
Total	**92,264**		

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

11. FUNDS BORROWED (continued)

	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**		

12. OTHER LIABILITIES AND PROVISIONS

	December 31, 2010	**December 31, 2009**
Other liabilities		
Taxes and dues payable	3,546	2,956
Cheques clearance account	21,231	12,204
Payables to government funds	59	206
Blocked money	6,486	2,654
Obligations under finance leases	10	917
Unused vacation liability	1,476	954
Blocked cheques and notes	2,612	1,104
Other	2,658	1,587
Total	**38,078**	**22,582**
Provisions		
Employee termination benefits	2,173	1,400
Provision on lawsuits	641	998
Provision for non-cash loans	768	249
Provision for bonus payments **(*)**	42	2,200
Specific provisions provided for unindemnified non -cash loans	2,082	1,169
Other	851	3,510
Total	**6,557**	**9,526**
Total	**44,635**	**32,108**

(*) The Bank has not provided any bonus provision as of December 31, 2010 since there has been no decision taken related to bonus payment for the 2010 performance. 42 TRY represents the unpaid portion of the bonus provision of 2009.

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

12. OTHER LIABILITIES AND PROVISIONS (continued)

	Specific provisions provided for unindemnified non cash loans	Provision for non-cash loans	Other Provisions
December 31, 2009	**1,169**	**249**	**6,708**
Charge for the year	1,142	529	15
Recoveries	(229)	(10)	-
Payments during the year	-	-	(2,532)
Release from provision	-	-	(1,839)
Reclassification of provision of loans to allowance for non-performing loans (Note 6)	-	-	(1,368)
Reclassification of free provision of loans to	-	-	(301)
other assets	-	-	851
Settlement date provision			
December 31, 2010	**2,082**	**768**	**1,534**

Employee Termination Benefits

In accordance with existing social legislation, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 2.517-full, and TRY 2.365-full at December 31, 2010 and 2009, 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, 2010, 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 2.623(full) effective January 1, 2011.

Benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them 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.

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

	December 31, 2010	December 31, 2009
Discount rate for pension plan liabilities	10.0%	11.0%
Inflation	5.1%	4.8%

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

12. OTHER LIABILITIES AND PROVISIONS (continued)

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

	December 31, 2010	December 31, 2009
Opening	1,400	962
Current service cost	355	303
Interest cost	142	105
Actuarial (gains)/ losses	466	122
Benefits paid	(190)	(92)
Closing balance at period end	**2,173**	**1,400**

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 2010 and 2009.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2010 (2009: 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 the 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.

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

13. INCOME TAXES (continued)

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

Statement of Financial Position:

	December 31, 2010	December 31, 2009
Corporate taxes and funds (*)	557	(1,952)
Deferred tax (asset) / liability (net)	(2,278)	(3,226)

(*) The prepaid tax is higher than the corporate tax liability and they are net off in other assets in the statement of financial position of December 31, 2009.

Income Statement:

	December 31, 2010	December 31, 2009
Current income tax from continuing operations	(972)	(3,240)
Deferred tax benefit/(charge) from continuing operations	(570)	2,535
	(1,542)	**(705)**

	December 31, 2010	December 31, 2009
Current period tax payable	972	3,240
Prepaid tax	(415)	(5,192)
Total	**557**	**(1,952)**

Temporary differences and corresponding deferred taxes are as follows:

	December 31, 2010 Temporary Differences	December 31, 2010 Deferred Tax (Asset)/Liability
Useful life difference on premises and equipment and intangible assets	2,008	402
Retirement pay and unused vacation provision	(3,649)	(730)
Loan impairment provision	(7,490)	(1,498)
Provisions	(1,702)	(341)
Other	(554)	(111)
Total	**(11,387)**	**(2,278)**

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

13. INCOME TAXES (continued)

	December 31, 2009 Temporary 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)**

Movement of deferred tax (asset) / liability:

	December 31, 2010	**December 31, 2009**
Opening balance at 1 January	(3,226)	(2,098)
Current year charge / (benefit)	570	(2,535)
Subtotal	(2,656)	(4,633)
Deferred tax under equity	378	1,407
Closing balance at period end	**(2,278)**	**(3,226)**

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

	December 31, 2010	**December 31, 2009**
Profit before income tax	5,352	4,193
Tax at the domestic income tax rate of 20% (2009: 20%)	(1,070)	(839)
Tax effect of non-deductable expenses, income that is deductible in determining taxable income and other adjustments, net	(472)	134
Tax charge per income statement	(1,542)	(705)

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

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, 2010			**December 31, 2009**		
	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
Forwards	12	-	721	-	-	-
Total	**12**	**-**	**721**	**39**	**-**	**13,949**

(*) Represents the total of buy and sell notional amounts of foreign currency swap and forward transactions.

Forward foreign exchange and swap transactions are for protection from currency fluctuations. According to IAS 39, they do not qualify as hedging instruments but trading and are remeasured at fair value.

Fair value hedges

As of December 31, 2010, the Bank has no fair value hedges (December 31, 2009: None).

Cash flow hedges

As of December 31, 2010, the Bank has no cash flow hedges (December 31, 2009: None).

Hedge of net investment in foreign operations

As of December 31, 2010, the Bank has no hedge of net investment in foreign operations (December 31, 2009: None).

15. SHARE CAPITAL

	December 31, 2010	**December 31, 2009**
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**

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

15. SHARE CAPITAL (continued)

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

	December 31, 2010	
	Amount	**%**
Arab Bank PLC	85,000	50%
Bankmed, SAL	85,000	50%
Restatement effect	148,164	
Total	**318,164**	

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

16. RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

	Other Reserves	**Legal Reserves**	**Extraordinary Reserves**	**Retained Earnings**	**Total**
At January 1, 2009	**(5,207)**	**624**	**9,790**	**(115,422)**	**(110,215)**
Transfer to reserves	(579)	42	579	(42)	-
Net profit for the year	-	-	-	3,488	3,488
At December 31, 2009	**(5,786)**	**666**	**10,369**	**(111,976)**	**(106,727)**
Transfer to reserves	2,520	-	(166)	(2,354)	-
Net profit for the year	-	-	-	3,810	3,810
At December 31, 2010	**(3,266)**	**666**	**10,203**	**(110,520)**	**(102,917)**

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.

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

16. RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED (continued)

Dividends Paid and Proposed

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

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, directly and indirectly owned 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, 2010	December 31, 2009
Salaries and short-term benefits	4,641	3,896

December 31, 2010	Cash loans	Non-cash loans	Customers' deposits	Deposit with banks	Deposit from banks	Borrowings	Interest and commission income	Interest and commission expense
Direct and indirect shareholders of the Bank	-	1,024	-	10	93	30,651	62	502
Other entities included in the risk group	-	7,254	10,785	42	56	151	105	549
TOTAL	**-**	**8,278**	**10,785**	**52**	**149**	**30,802**	**167**	**1,051**

December 31, 2009	Cash loans	Non-cash loans	Customers' deposits	Deposits with banks	Deposits from banks	Borrowings	Interest and commission income	Interest and commission expense
Direct and indirect shareholders of the bank	-	-	-	9	107	5,661	117	384
Other entities included in the risk group	-	38,799	556	28	68	9,394	56	1,741
TOTAL	**-**	**38,799**	**556**	**37**	**175**	**15,055**	**173**	**2,125**

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

18. INTEREST INCOME

	December 31, 2010	December 31, 2009
Loans and receivables	91,577	98,782
Securities	20,810	20,314
Deposits with banks and other financial institutions	179	399
Other interest income	2,351	5,834
Total	**114,917**	**125,329**

19. INTEREST EXPENSES

	December 31, 2010	December 31, 2009
Customer deposits	(56,493)	(51,761)
Funds borrowed and deposits from other banks	(2,845)	(8,716)
Other interest expenses	(3,049)	(467)
Total	**(62,387)**	**(60,944)**

20. OTHER INCOME

	December 31, 2010	December 31, 2009
Gain on non-performing loan sales	1,488	-
Other, including release from provisions	2,826	562
Total	**4,314**	**562**

21. FEES AND COMMISSIONS

	December 31, 2010	December 31, 2009
Fees and commission income		
Fees and commissions from non-cash loans	9,543	7,434
Other	7,748	6,052
Fees and commission expense		
Fees and commission expense on non-cash loans	(43)	(43)
Fees and commission expense on banks	(332)	(328)
Other	(444)	(386)
Net Fees and Commissions	**16,472**	**12,729**

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

22. TRADING INCOME

	December 31, 2010	December 31, 2009
Income		
Gains on capital market operations	8,871	9,187
Gains on derivative financial instruments	6,858	869
Losses (-)		
Losses on capital market operations	(18)	(9)
Losses on derivative financial instruments	(17,620)	(3,879)
Total	**(1,909)**	**6,168**

23. OPERATING EXPENSES

	December 31, 2010	December 31, 2009
Staff costs	(37,624)	(33,528)
Defined benefit obligation	(963)	(530)
Unused vacation payments	(522)	(385)
Depreciation and amortization	(5,233)	(4,937)
Rent expenses	(7,060)	(6,624)
Vehicle expenses	(2,905)	(2,789)
Communication expenses	(1,828)	(1,852)
Cleaning expenses	(1,188)	(934)
Provision expense for bonus payments	-	(2,200)
Heating lightening expenses	(915)	(798)
Stationery expenses	(500)	(370)
Others	(9,268)	(9,076)
Total	**(68,006)**	**(64,023)**

Staff Costs

	December 31, 2010	December 31, 2009
Wages and salaries	(34,286)	(28,922)
Other	(3,338)	(4,606)
Total	**(37,624)**	**(33,528)**

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

24. 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, 2010	December 31, 2009
Letters of guarantee issued	760,213	604,479
Letters of credit	107,318	72,819
Acceptance credits	17,310	9,525
Other	91,060	22,682
Total non-cash loans	975,901	709,505
Other commitments	190,800	79,931
Credit card limit commitments	1,572	1,708
Total	**1,168,273**	**791,144**

As of December 31, 2010, forward marketable security purchase and sale commitments (included in other commitments) amount to TRY 107, 009 (December 31, 2009: TRY 44,557).

Letters of Guarantee Given to Istanbul Stock Exchange (ISE)

As of December 31, 2010, according to general requirements of the ISE, letters of guarantee amounting to USD 1 million (December 31, 2009: 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. Total amount of the cases faced is TRY 351, EUR 299 Thousand and USD 627 Thousand (December 31, 2009: TRY 253, EUR193 Thousand and USD 627 Thousand). The provision of TRY 641 for those cases was provided based on management estimates and professional advice (December 31, 2009: TRY 998).

25. 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 function 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.

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 of Directors and the Audit Committee.

25. FINANCIAL RISK MANAGEMENT (continued)

Organization of the Risk Management Function (continued)

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.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. As of December 31, 2010 amount subject to Operational Risk is TRY 116,047 by using the year end gross revenue of prior 3 years 2007, 2008 and 2009. (December 31, 2009 : TRY 85,990)

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 statements of account for the borrowers are tried to be derived from audited financial statements. The unaudited documents mainly 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 statements of account, 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.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

Indemnified non-cash loans are subject to the same risk weight as outstanding loans matured but not yet paid.

Financial institutions abroad and country risks of the Bank are generally taken for the financial institutions and countries whose investment level is rated by international rating agencies and which do not have the risk of failing to meet minimum obligations. Therefore, the probable risks are not considered to be material when the financial structure of the Bank is concerned.

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

As of December 31, 2010, the receivables of the Bank from its top 100 cash loan customers amount to TRY 500,765 Thousand (December 31, 2009: TRY 420,858 Thousand) with a share of 49.08% in the total cash loans (December 31, 2009: 56.11%).

As of December 31, 2010, the receivables of the Bank from its top 100 non-cash loan customers amount to TRY 572,590 Thousand (December 31, 2009: TRY 489,774 Thousand) with a share of 53.95% in the total non-cash loans (December 31, 2009: 65.60%).

The share of cash and non-cash receivables of the Bank from its top 100 customers in total statement of financial position and non-cash risk is 32.27 % as of December 31, 2010 (December 31, 2009: 38.75%).

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.

The Bank sets out the following 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.

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

25. 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, 2010	December 31, 2009
Agricultural	31,146	17,959
Farming and Raising Livestock	26,303	16,163
Forestry, Wood and Paper	4,575	1,786
Fishery	268	10
Manufacturing	927,884	631,876
Mining and Quarry	190,797	129,360
Production	731,957	501,879
Electricity, Gas and Water	5,130	637
Construction	449,345	312,483
Services	1,027,462	826,841
Wholesale and Retail Trade	235,345	174,893
Hotel, Tourism, Food and Beverage Services	70,651	70,227
Transportation and Communication	57,745	101,841
Financial Institutions and Government	556,117	427,387
Real Estate and Renting Services	37,162	16,336
Self-Employment Services	38,818	23,456
Education Services	201	88
Health and Social Services	31,423	12,613
Other	90,602	42,755
Total	**2,526,439**	**1,831,914**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position;

Gross maximum exposure	**December 31, 2010**	**December 31, 2009**
Due from banks	79,936	67,245
Money market placements and funds lent under resale agreements	14,003	77,514
Financial assets at fair value through profit and loss	432	964
Derivative financial instruments	12	39
Loans and receivables	995,783	717,278
Securities available-for-sale	220,118	138,521
Securities held-to-maturity	47,882	39,209
Total	1,358,166	1,040,770
Contingent liabilities	975,901	709,505
Commitments	192,372	81,639
Total	1,168,273	791,144
Total credit risk exposure	**2,526,439**	**1,831,914**

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

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of December 31, 2010 and 2009 are as follows;

December 31, 2010	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Due from banks	79,936	-	79,936
Financial assets designated at fair value through profit or loss	444	-	444
Loans and receivables			
Corporate lending	612,713	33,146	645,859
Small business lending	314,647	22,683	337,330
Consumer lending	12,190	404	12,594
Total loans and receivables	939,550	56,233	995,783
Financial investments			
Quoted – Government debt securities	267,921	-	267,921
Quoted – Other debt securities	-	-	-
Unquoted – Debt securities	-	-	-
Total financial investments	267,921	-	267,921
Grand Total	**1,287,851**	**56,233**	**1,344,084**

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	1,003	-	1,003
Loans and receivables			
Corporate lending	473,583	27,679	501,262
Small business lending	197,637	14,741	212,378
Consumer lending	3,178	460	3,638
Total loans and receivables	674,398	42,880	717,278
Financial investments			
Quoted – Government debt securities	177,651	-	177,651
Quoted – Other debt securities	-	-	-
Unquoted – Debt securities	-	-	-
Total financial investments	177,651	-	177,651
Grand Total	**920, 297**	**42,880**	**963,177**

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

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Performing Loans:

	Internal/External Grades	Share of exposure %	December 31, 2010	Share of exposure %	December 31, 2009
High Grade					
Risk rating class 1	A+ Excellent	1.79%	17,510	0.37%	2,633
Risk rating class 2	A- Excellent	5.05%	49,530	4.54%	32,495
Risk rating class 3	B+ Very Good	13.53%	132,610	9.88%	70,791
Risk rating class 4	B- Very Good	14.94%	146,494	18.20%	130,348
Standard Grade					
Risk rating class 5	C+ Good	19.20%	188,234	13.66%	97,845
Risk rating class 6	C- Good	23.49%	230,261	20.52%	146,943
Sub Standard Grade					
Risk rating class 7	D+ Ordinary	10.15%	99,479	18.38%	131,639
Risk rating class 8	D- Ordinary	9.82%	96,254	8.06%	57,694
Risk rating class 9	E Poor	0.59%	5,777	5.37%	38,466
Risk rating class 10	F Very Poor	0.02%	241	0.15%	1,095
Unrated		1.42%	13,842	0.87%	6,285
Total		**100.00%**	**980,232**	**100.00%**	**716,234**

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 collateral 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 3 with outstanding TRY 241 (December 31, 2009 : TRY 1,095; 6 client).

One of these clients with is granted against mortgage with outstanding risk of TRY 81 and covers 33% of total “F” Rating Risk (December 31,2009 : 4 client; 84%).

“E” rating;

Number of clients with E rating is 17 and total outstanding is TRY 5,777 (December 31, 2009 : TRY 38,466; 30 client).

5 of these clients are granted against mortgage with outstanding risk of TRY 3,640 and covers 63% of total “E” Rating Risk. (December 31,2009 : TRY 27,660; 12 client; 72%).

5 of these clients are granted against customer check/note with outstanding risk of TRY 914 and covers 16% of total “E” Rating Risk (December 31,2009 : TRY 1,925; 4 client; 5%).

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

25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

“D-” rating;

Number of clients with D- rating is 89 and total outstanding is TRY 96,254 (December 31, 2009 : TRY 57,694; 97 client).

36 of these clients are granted against mortgage with outstanding risk of TRY 51,643 and covers 54% of “D-” Rating risk. (December 31, 2009 : TRY 36,760; 30 client; 64%).

21 of these clients are granted against customer check/note with outstanding risk of TRY 15,435 and covers 16% of “D-” Rating risk (December 31,2009 : TRY 6,485; 20 client; 11%).

Parent companies of 5 clients that have TRY 6, 143 risk have “C-“ and better ratings. (6%).

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

	December 31, 2010	December 31, 2009
Loans and receivables	1,323	1,330
Corporate lending	1,323	1,330
Small business lending	-	-
Consumer lending	-	-
Other	-	-
Total	**1,323**	**1,330**

Impairment assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date.

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

25. FINANCIAL RISK MANAGEMENT (continued)

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. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

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 statement of financial position and their costs. In this sense, various crisis scenarios which are prepared by risk management group are presented to management and audit committee.

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of pre-financing to generate additional sources.

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, 2010							
Customers' deposits	888,877	246,552	5,762	-	-	(3,859)	1,137,332
Deposits from banks	5,749	-	-	-	-	-	5,749
Obligations under repurchase agreements	17	-	-	-	-	-	17
Funds borrowed	7,931	24,105	45,967	16,836	-	(2,575)	92,264
Total	**902,574**	**270,657**	**51,729**	**16,836**		**(6,434)**	**1,235,362**
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**

Interest to be paid until maturity.

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

25. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (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, 2010						
Net settled:	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Forward contracts	-	-	-	-	-	-
Gross settled: (*)	362	-	-	-	-	362
Forward contracts	362	-	-	-	-	362
Currency swaps	-	-	-	-	-	-
Total	**362**	**-**	**-**	**-**	**-**	**362**
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**

(*) Presents forward and swap foreign currency transactions-buy notional amounts.

As of December 31, 2010 there are TRY 38,845 forward marketable securities purchase commitments are due within one month. (December 31, 2009: TRY 1,405).

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.

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

25. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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, 2010							
Assets:							
Cash and cash equivalents	16,985	92,254	-	-	-	-	109,239
Balances with Central Bank(***)	44,750	34,166	13,698	3,961	1,535	-	98,110
Financial assets at fair value through profit or loss	-	106	44	185	97	-	432
Derivative financial instruments	-	12	-	-	-	-	12
Loans and receivables (*)(**)	-	707,905	46,424	109,168	104,653	27,633	995,783
Investment securities	-	2,964	12,006	34,586	218,365	79	268,000
Premises and equipment	-	-	-	-	-	14,081	14,081
Intangible assets	-	-	-	-	-	864	864
Deferred tax asset	-	-	-	-	-	2,278	2,278
Other assets	-	9,816	-	-	-	4,932	14,748
Total Assets	**61,735**	**847,223**	**72,172**	**147,900**	**324,650**	**49,867**	**1,503,547**
Liabilities:							
Customers' deposits	111,079	776,217	244,417	5,619	-	-	1,137,332
Deposits from banks	5,749	-	-	-	-	-	5,749
Obligations under repurchase agreements	-	17	-	-	-	-	17
Derivative financial instruments	-	-	-	-	-	-	-
Funds borrowed	-	7,888	23,894	44,742	15,740	-	92,264
Other liabilities and provisions	-	36,019	182	6	-	231,978	268,185
Total Liabilities	**116,828**	**820,141**	**268,493**	**50,367**	**15,740**	**231,978**	**1,503,547**
Net liquidity gap	**(55,093)**	**27,082**	**(196,321)**	**97,533**	**308,910**	**(182,111)**	**-**
As at December 31,2009							
Total assets	39,437	727,803	39,128	98,277	209,378	26,602	1,140,625
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)**	**-**

(*) Revolving loans are presented in up to 1 month column.
(**) Collective allowances are proportionally distributed according to the maturity distribution of loans and receivables
(***)Reserve requirement distribution is based on maturity distribution of liabilities on which the reserve is calculated.

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.

25. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

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 standardized method (summarized below) is taken into consideration. Beside the standardized 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-tax 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 recognizing 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.

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 standardized 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.

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

25. FINANCIAL RISK MANAGEMENT (continued)

Currency risk (Continued)

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, 2010				
Assets				
Cash and cash equivalents	10,777	80,049	847	91,673
Balances with Central Bank	19,668	33,692	-	53,360
Loans and receivables (*)	183,115	195,788	-	378,903
Investment securities	-	38,915	-	38,915
Other assets	-	199	-	199
Total assets	**213,560**	**348,643**	**847**	**563,050**
Liabilities:				
Customers' deposits	141,008	336,755	346	478,109
Deposits from banks	1,660	3,923	31	5,614
Funds borrowed	69,333	7,462	-	76,795
Other liabilities and provisions	328	2,226	9	2,563
Total Liabilities	**212,329**	**350,366**	**386**	**563,081**
Net position on statement of financial position	**1,231**	**(1,723)**	**461**	**(31)**
Net position off statement of financial position	**(2,120)**	**1,651**	**-**	**(469)**
Derivative financial assets and forward marketable security and spot currency purchase agreements	6,051	46,975	-	53,026
Derivative financial liabilities and forward marketable security and spot currency sale agreements	(8,171)	(45,324)	-	(53,495)
As of December 31, 2009				
Total assets	167,826	226,141	1,913	395,880
Total liabilities	158,966	235,966	828	395,760
Net position on statement of financial position	8,860	(9,825)	1,085	120
Net position off statement of financial position	(7,704)	7,745	-	41
Derivative financial assets and forward marketable security purchase agreement	2,675	10,427	-	13,102
Derivative financial liabilities and forward marketable security sale agreement	(10,379)	(2,682)	-	(13,061)

(*) Foreign currency indexed loans amounting to TRY 174,776 (December 31, 2009: TRY 103,735) are included in the loan portfolio.

Foreign currency sensitivity

The Bank holds EUR and USD currencies positions mainly.

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, 2010	December 31, 2009	December 31, 2010	December 31, 2009
USD	10	(7)	(208)	26	-
EUR	10	(89)	116	-	-

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

25. 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 standard method and included in the market risk for capital adequacy.

Risk Management Department performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reports 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.

Information related to the interest rate sensitivity of assets, and liabilities:

	Up to 1 Month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at December 31, 2010						
Assets:						
Cash and cash equivalents	92,254	-	-	-	16,985	109,239
Balances with Central Bank	-	-	-	-	98,110	98,110
Financial assets at fair value through profit or loss	106	141	185	-	-	432
Derivative financial instruments	12	-	-	-	-	12
Loans and receivables (*)(**)	707,905	46,424	109,168	104,653	27,633	995,783
Investment securities	16,034	90,934	71,428	89,525	79	268,000
Premises and equipment	-	-	-	-	14,081	14,081
Intangible assets	-	-	-	-	864	864
Deferred tax asset	-	-	-	-	2,278	2,278
Other assets	-	-	-	-	14,748	14,748
Total Assets	**816,311**	**137,499**	**180,781**	**194,178**	**174,778**	**1,503,547**
Liabilities:						
Customers' deposits	776,217	244,417	5,619	-	111,079	1,137,332
Deposits from banks	-	-	-	-	5,749	5,749
Obligations under repurchase agreements	17	-	-	-	-	17
Derivative financial instruments	-	-	-	-	-	-
Funds borrowed	7,871	23,894	44,742	15,740	17	92,264
Other liabilities and provisions	1,084	182	6	-	266,913	268,185
Total Liabilities	**785,189**	**268,493**	**50,367**	**15,740**	**383,758**	**1,503,547**
Total interest sensitivity gap	**31,122**	**(130,994)**	**130,414**	**178,438**	**(208,980)**	**-**
Total Assets December 31, 2009	730,098	81,572	107,048	144,853	77,054	1,140,625
Total Liabilities December 31, 2009	580,807	221,000	27,679	82	311,057	1,140,625
Total interest sensitivity gap	**149,291**	**(139,428)**	**79,369**	**144,771**	**(234,003)**	**-**

(*) Revolving loans are presented in up to 1 month column.
(**) Collective allowances are proportionally distributed according to the maturity distribution of loans and receivables

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

25. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk (continued)

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 decrease by TRY 703. The main reason of this is the change in TRY and FC deposits (December 31, 2009: TRY 43).

- There is no effect on the Bank's equity.

Interest Rate Swap Contracts

The Bank does not have any interest rate swap contracts outstanding as of the reporting 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, 2010, the regulatory capital adequacy ratio of the Bank on an unconsolidated basis is above 12%.

	December 31, 2010	**December 31, 2009**
Tier I capital	202,781	199,667
Tier II capital	13,199	9,327
Deductions	(230)	(241)
Total regulatory capital	215,750	208,753
Risk-weighted assets (including market and operational risk)	1,537,441	1,080,242
Capital adequacy ratio (%)	14.03	19.32

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

25. 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, 2010	**December 31, 2009**	**December 31, 2010**	**December 31, 2009**
Financial assets	**1,137,683**	**901,325**	**1,134,760**	**902,700**
Money market placements and funds lent under resale agreements	14,003	77,514	14,003	77,514
Deposits with banks	79,936	67,245	79,936	67,245
Available-for-sale financial assets	79	79	(*)	(*)
Loans and receivables	995,783	717,278	992,471	717,649
Held-to-maturity investments	47,882	39,209	48,350	40,292
Financial liabilities	**1,235,362**	**890,843**	**1,235,845**	**890,998**
Customers' deposits	1,137,332	840,906	1,137,567	841,061
Deposits from banks	5,749	1,044	5,749	1,044
Obligations under repurchase agreements	17	15	17	15
Funds borrowed	92,264	48,878	92,512	48,878

(*) Fair value can not be determined reliably.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i. Financial assets:

Money market placements and banks are carried at amortized cost values on the face of the financial statements and due to their short term nature, their fair values are considered to approximate their respective carrying values at amortized cost. The discount rate used to calculate the fair value of held- to- maturity investments and loans and receivables as of December 31, 2010 is the market rates available for the related loan and security types.

ii. Financial liabilities:

The fair value of bank deposits are considered to approximate their respective carrying values at amortized cost due to their short term nature. The discount rate used to calculate the fair value of other deposits and funds borrowed as of December 31, 2010 is the market rates available for the related borrowing and deposits types.

The fair values of financial assets and financial liabilities carried at fair value 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.

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

25. FINANCIAL RISK MANAGEMENT (continued)

Fair Value of Financial Instruments (continued)

December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at fair value through profit and loss	432	-	-	432
Debt instruments	*432*	-	-	*432*
Derivative financial instruments	-	12	-	12
Available-for-sale financial assets	220,039	-	-	220,039
Debt instruments	*220,039*	-	-	*220,039*

December 31, 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets				
Financial assets at fair value through profit and loss	964	-	-	964
Debt instruments	*964*	-	-	*964*
Derivative financial instruments	-	39	-	39
Available-for-sale financial assets	138,442	-	-	138,442
Debt instruments	*138,442*	-	-	*138,442*

26. SUBSEQUENT EVENTS

As announced in the official gazette numbered 27825 and dated January 24, 2011 based on the "Communiqué on Amendments to be made on Communiqué on Required Reserves", reserve deposit rates applied to TRY liabilities has changed as follows:

Demand Dep., Call Accounts, Private Current Accounts	Deposits/ Participation Acc. up to 1-Month Maturity	Deposits/ Participation Acc. up to 3-Month Maturity	Deposits/ Participation Acc. up to 6-Month Maturity	Deposits/ Participation Acc. up to 1-Year Maturity	Deposits/Partic. Accounts with 1-Year or Longer Maturity, Accumulating Dep./Partic. Acc	Special Fund Pools
12%	10%	9%	7%	6%	5%	Based on Ratios for corresponding maturities