KPMG

TÜRKİYE SINAİ KALKINMA BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

27 April 2012

This report contains 1 page of independent auditors' report on consolidated financial statements and 92 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Sinai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion

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

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

Istanbul,
27 April 2012

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

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

ASSETS	Notes	31 December 2011	31 December 2010
Cash and cash equivalents	5	347	383
Balances with central bank	6	7,853	7,137
Reserve deposits at central bank	6	112,909	57,030
Loans and advances to banks	7	425,226	555,894
Interbank money market placements	5	102,437	1,228
Funds lent under repurchase agreements	5	6,928	6,602
Financial assets at fair value through profit or loss		150,325	120,118
- *Trading assets*	*8*	104,972	108,857
- *Derivative assets*	*31*	45,353	11,261
Loans and advances to customers	9	6,281,981	4,660,365
Investment securities	10	2,445,193	2,440,994
- *Available for sale investment securities*		2,318,238	2,130,707
- *Held to maturity investment securities*		126,955	310,287
Investments in equity-accounted investees	11	190,522	172,446
Goodwill	12	383	383
Property and equipment	13	24,738	24,917
Investment property	14	226,805	213,281
Intangible assets	15	870	857
Other assets	16	127,570	46,202
Deferred tax assets	21	10,282	19,572
Total assets		**10,114,369**	**8,327,409**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

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

LIABILITIES	Notes	31 December 2011	31 December 2010
Obligations under repurchase agreements	17	947,754	1,186,064
Derivative liabilities	31	48,743	10,354
Funds borrowed	18	6,785,535	5,052,850
Debt securities issued	19	-	194,282
Payables to stock exchange money market	4	420,609	247,669
Current account of loan customers	33	7,894	-
Taxes and dues payable		4,085	4,033
Employee benefits	22	5,859	5,292
Corporate tax liability	21	13,583	12,588
Provisions		751	551
Other liabilities	20	148,661	87,514
Subordinated loan	23	95,000	77,947
Total liabilities		**8,478,474**	**6,879,144**
EQUITY			
Share capital			
Nominal paid in capital	24	800,000	700,000
Inflation adjustment to capital	24	13,563	13,563
Total capital		813,563	713,563
Share premium		413	413
Legal reserves		98,551	76,134
Fair value reserve		17,626	71,443
Retained earnings		607,615	485,460
Total equity attributable to equity holders of the Bank		**1,537,768**	**1,347,013**
Non-controlling interests	24	98,127	101,252
Total equity		**1,635,895**	**1,448,265**
Total liabilities and equity		**10,114,369**	**8,327,409**
Commitment and contingencies	30	**10,734,291**	**5,917,038**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated)

	Notes	1 January – 31 December 2011	1 January – 31 December 2010
Interest income			
Interest income on loans		288,562	187,823
Interest on money market placements		3,959	1,601
Interest income on securities		208,556	225,312
Interest income on deposits at banks		31,249	36,657
Interest income on reserve deposit at central banks		-	59
Interest income on finance leases		2,144	3,472
Other interest income		231	581
Total interest income	28	**534,701**	**455,505**
Interest expenses			
Interest expense on obligations under repurchase agreements and money market borrowings		(90,231)	(94,110)
Interest expense on funds borrowed and subordinated loan		(80,394)	(54,797)
Interest expense on debt securities issued		(3,922)	(5,667)
Other interest expenses		(35)	(13)
Total interest expense	28	**(174,582)**	**(154,587)**
Net interest income		**360,119**	**300,918**
Fee and commission income		30,350	42,951
Fee and commission expense		(2,098)	(7,403)
Net fee and commission income	28	**28,252**	**35,548**
Securities trading income / (losses), net		(5,030)	3,311
Derivative trading income / (losses), net		(54,430)	1,926
Foreign exchange gains / (losses), net		39,438	439
Net trading income	**28**	**(20,022)**	**5,676**
Net impairment losses on loans and advances to customers		(22,390)	(11,334)
Net operating income after impairment losses		**345,959**	**330,808**
Other operating income	25	81,143	37,209
Other operating expenses	27	(92,740)	(93,272)
Dividend income	26	5,222	2,503
Share of profit of equity-accounted investees	11	20,924	20,509
Profit before income tax		**360,508**	**297,757**
Income tax expense	21	(70,880)	(58,457)
Profit for the year		**289,628**	**239,300**
Profit attributable to:			
Equity holders of the Bank		291,771	234,185
Non-controlling interests		(2,143)	5,115
Profit for the year		**289,628**	**239,300**
Weighted average number of shares outstanding	34	800,000,000	800,000,000
Basic and diluted earnings per share	34	0.3620	0.2991

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	1 January – 31 December 2011	1 January – 31December 2010
Profit for the year	**289,628**	**239,300**
Other comprehensive income		
Change in unrealized gain / (losses) on available for sale investments	(62,597)	13,779
Net gain / (losses) on available for sale investment securities transferred to profit or loss	(1,770)	373
Income tax on other comprehensive income	10,550	(699)
Other comprehensive income for the year, net of tax	**(53,817)**	**13,453**
Total comprehensive income for the year	**235,811**	**252,753**
Attributable to		
Equity holders of the Bank	237,954	247,638
Non-controlling interests	(2,143)	5,115
Total comprehensive income for the year	**235,811**	**252,753**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

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

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Inflation adjustment to capital**	**Share premium**	**Legal reserves**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2010		**600,000**	**13,563**	**23**	**57,971**	**57,990**	**423,960**	**1,153,507**	**28,647**	**1,182,154**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	234,185	234,185	5,115	239,300
Other comprehensive income										
Change in unrealized gain / (losses) on available for sale investments		-	-	-	-	13,779	-	13,779	-	13,779
Net loss on available for sale investment securities transferred to profit or loss		-	-	-	-	373	-	373	-	373
Income tax on other comprehensive income		-	-	-	-	(699)	-	(699)	-	(699)
Total other comprehensive income		**-**	**-**	**-**	**-**	**13,453**	**-**	**13,453**	**-**	**13,453**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**13,453**	**234,185**	**247,638**	**5,115**	**252,753**
Transactions with owners, recognised directly in equity										
Capital increase	24	100,000	-	-	-	-	(100,000)	-	-	-
Dividend distribution	24	-	-	-	-	-	(34,152)	(34,152)	(1,258)	(35,410)
Total contributions by and distributions to owners		**100,000**	**-**	**-**	**-**	**-**	**(134,152)**	**(34,152)**	**(1,258)**	**(35,410)**
Changes in ownership interests in subsidiaries										
Sale of non-controlling interests		-	-	390	24	-	(20,394)	(19,980)	68,748	48,768
Total transactions with owners		**100,000**	**-**	**390**	**24**	**-**	**(154,546)**	**(54,132)**	**67,490**	**13,358**
Transfer to legal reserves	24	-	-	-	18,139	-	(18,139)	-	-	-
Balance at 31 December 2010	**24**	**700,000**	**13,563**	**413**	**76,134**	**71,443**	**485,460**	**1,347,013**	**101,252**	**1,448,265**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

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

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Inflation adjustment to capital**	**Share premium**	**Legal reserves**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011		**700,000**	**13,563**	**413**	**76,134**	**71,443**	**485,460**	**1,347,013**	**101,252**	**1,448,265**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	291,771	291,771	(2,143)	289,628
Other comprehensive income										
Change in unrealized gain / (losses) on available for sale investments		-	-	-	-	(62,597)	-	(62,597)	-	(62,597)
Net gain on available for sale investment securities transferred to profit or loss		-	-	-	-	(1,770)	-	(1,770)	-	(1,770)
Income tax on other comprehensive income		-	-	-	-	10,550	-	10,550	-	10,550
Total other comprehensive income		**-**	**-**	**-**	**-**	**(53,817)**	**-**	**(53,817)**	**-**	**(53,817)**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**(53,817)**	**291,771**	**237,954**	**(2,143)**	**235,811**
Transactions with owners, recognised directly in equity										
Capital increase	24	100,000	-	-	-	-	(100,000)	-	-	-
Dividend distribution	24	-	-	-	-	-	(47,199)	(47,199)	(982)	(48,181)
Total contributions by and distributions to owners		**100,000**	**-**	**-**	**-**	**-**	**(147,199)**	**(47,199)**	**(982)**	**(48,181)**
Transfer to legal reserves	24	-	-	-	22,417	-	(22,417)	-	-	-
Balance at 31 December 2011	**24**	**800,000**	**13,563**	**413**	**98,551**	**17,626**	**607,615**	**1,537,768**	**98,127**	**1,635,895**

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

TÜRKİYE SINAİ KALKINMA BANKASI AŞ

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

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

	Notes	1 January – 31 December 2011	1 January – 31 December 2010
Cash flows from operating activities:			
Profit for the year		289,628	239,300
Adjustments for:			
Net interest income		(360,119)	(300,918)
Depreciation of property and equipment	13	2,478	3,467
Amortisation of intangible assets	15	390	327
Net impairment losses on loans and advances	9	(21,988)	(9,485)
Reserve for employee severance indemnity	22	567	855
Share of profit of equity-accounted investees		(20,924)	(20,509)
Other provision expenses		200	(3,522)
Income tax expense	21	70,880	58,457
Gain / (loss) on sale of property and equipment		(11,467)	-
Unrealized gains		56,572	(22,557)
Non-controlling interests	24	2,143	(5,115)
Operating profit before changes in operating assets / liabilities		**8,360**	**(59,700)**
Changes in operating assets and liabilities:			
Change in loans and leasing receivables		(1,840,908)	(908,782)
Change in other assets		(73,736)	68,516
Change in other creditors, taxes and liabilities		93,343	(33,426)
		(1,812,941)	**(933,392)**
Interest received		563,090	484,363
Interest paid		(175,115)	(177,573)
Income taxes paid		(50,461)	(50,579)
Dividends received		4,487	1,976
Net cash (used in) / provided from operating activities		**(1,470,940)**	**(675,205)**
Cash flows from investing activities:			
Reserve requirements with the Central Bank		(55,879)	(39,064)
Change in trading securities		1,198	(32,246)
Change in available for sale investment securities		(216,132)	52,116
Change in held to maturity investment securities		182,973	-
Change in equity participations		2,848	(685)
Purchases of property and equipment and investment property		(6,171)	(6,771)
Sale of property and equipment		17,995	-
Purchase of intangible assets	15	(403)	(277)
Net cash used in investing activities		**(73,571)**	**(26,927)**
Cash flows from financing activities:			
Proceeds from funds borrowed		2,280,176	1,180,836
Repayment of funds borrowed		(727,821)	(442,884)
Proceeds from debt securities issued		-	198,315
Dividends paid	32	(48,181)	(35,410)
Net cash provided from financing activities		**1,504,174**	**900,857**
Net (decrease) / increase in cash and cash equivalents		**(40,337)**	**198,725**
Cash and cash equivalents at 1 January	**5**	**564,646**	**358,221**
Effect of exchange rate fluctuations on cash and cash equivalents held		10,380	7,700
Cash and cash equivalents at 31 December	**5**	**534,689**	**564,646**

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

Notes to the consolidated financial statements

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ ("TSKB" or the "Bank") was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ ("SYB"), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency ("BRSA") decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 161 Fındıklı, Istanbul, Turkey.

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

Ever since its foundation in 1950, TSKB has played an active role in every stage of Turkey's economic development. The Bank, through its support and extension of medium-term loans for more than 4,000 investment projects, has contributed significantly to the progress and development of the private sector. Over the past 36 years, the Bank provided financing through participating in the share capital of more than 100 companies. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets. The main shareholders of TSKB are T. İş Bankası Group and T. Vakıflar Bankası T.A.O. with the percentages of 50.00% and 8.38%, respectively (31 December 2010: 50.06% and 8.38%, respectively).

The consolidated financial statements of the Bank as at and for the year ended 31 December 2011 are available upon request from the Bank's registered office.

Information about the consolidated subsidiaries and associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company's objective is to perform capital market operations specified in the Company's main contract in accordance with the Capital Markets Board ("CMB") and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded on the Istanbul Stock Exchange since April 2010.

1. REPORTING ENTITY (continued)

Information about the consolidated subsidiaries and associates (continued)

TSKB Yatırım Ortaklığı AŞ

The Company was established under the name of SYB Yatırım Ortaklığı AŞ on 10 November 2000. The company's name, Sınai Yatırım Bankası Yatırım Ortaklığı AŞ, was changed into TSKB Yatırım Ortaklığı AŞ on 17 April 2003 since Sınai Yatırım Bankası AŞ ceased to operate and it was merged with TSKB. The company's headquarters is in Istanbul.

The objective of TSKB Yatırım Ortaklığı AŞ is to manage capital market instruments and gold or other precious metal portfolios in the local or international markets or over-the-counter markets, without having the control or significant effect over/on management and capital of the investees, under the principles and guidelines specified by the related legislation.

The company was merged with Yatırım Finansman Yatırım Ortaklığı AŞ on 25 June 2009.

In the Board of Directors meeting of the Company, held on 14 December 2011 numbered 230, it was decided to merge with İş Yatırım Ortaklığı Anonim Şirketi registered on Istanbul Trade Register Office registration numbered 367835, within the Turkish Commercial Code 451 and 5520 numbered Corporate Tax Law, 19 and 20th clauses. As at the reporting date, the merger process has not been completed.

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Turkish Leasing Law No: 3226. The company started its leasing operations in July 1998. The Company's headquarters is located at İş Kuleleri, Kule: 2 Kat: 10 34330 Levent-Istanbul/Turkey.

İş Factoring Finansman Hizmetleri AŞ

İş Factoring Finansman Hizmetleri AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993. The company's main operation is domestic and export factoring transactions. Its parent is İş Finansal Kiralama AŞ with 78.23% shareholding.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The company is continuing its operations at İş Kuleleri Kule 2, Kat: 8, Levent, Istanbul.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.9.

IAS 29 "Financial Reporting in Hyperinflationary Economies" requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods to be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. Such cumulative rate in Turkey was 35.61% for the three years ended 31 December 2005 based upon the wholesale price indices announced by the Turkish State Institute of Statistics ("SIS"). Although the cumulative rate in Turkey was 35.61% which was below 100%, for the three years ended 31 December 2005, other characteristics were still valid and improvements in the economic indicators did not yet lead to an assured conclusion that the economy was no longer hyperinflationary as of 31 December 2005. On the other hand, in accordance with the declaration of the BRSA, the banks operating in Turkey which prepare their financial statements in accordance with the BRSA accounting standards, effective from 1 January 2005, would not be subject to the application of inflation accounting.

Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 "Financial Reporting in Hyperinflationary Economies" were no longer applicable, the consolidated financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms.

Subsequently, on 22 November 2005, American Institute of Certified Public Accountants (AICPA) International Practices Task Force in its highlights memorandum declared that Turkey would come off its highly inflationary status as of the first period beginning after 15 December 2005.

2. BASIS OF PREPARATION (Continued)

2.3 Functional and Presentation Currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Critical accounting judgments made in applying the Bank's accounting policies include:

Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy.
- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in accounting policy Note 3.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (Continued)

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument**.**

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.23 are reviewed regularly.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities.

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination.

The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group's holdings:

Entity	Sector	The Group's Share (%)
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	65.45
TSKB Yatırım Ortaklığı AŞ	Capital market instruments management	51.61

The consolidated financial statements of the companies below are accounted for under the equity method:

Entity	Sector	The Group's Share (%)
İş Finansal Kiralama AŞ	Leasing	28.56
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	16.67
İş Factoring Finansman Hizmetleri AŞ	Factoring	21.75

The following equity investments have been accounted at cost; they have not been consolidated or accounted under the equity method: their consolidation would not have a material effect on income for the year or shareholder's equity.

Entity	Sector	The Group's Share (%)
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Gayrimenkul Aracılık Hiz. AŞ	Real-Estate Appraiser	100.00
TSKB Gayrimenkul Danışmanlık Hiz. AŞ	Real-Estate Appraiser	100.00
Terme Metal Sanayi ve Ticaret AŞ	Manufacturing	17.83
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ	Warehousing	10.00
Sürdürülebilir Danışmanlık AŞ	Consultancy	96.00

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Acquisitions from third parties are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Investments in Associates (Equity-accounted Investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence as set out in Note 3.3, through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in Associates (Equity-accounted Investees) (continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments.

Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity.

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

Foreign operations

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

As at 31 December 2011 and 31 December 2010, foreign currency assets and liabilities of the Group are mainly in US Dollar, Euro and Yen. As at 31 December 2011 and 31 December 2010, exchange rates of US Dollar, Euro and Yen are as follows:

	2011		2010	
	Period End	**Average**	**Period End**	**Average**
1 US Dollar	1.8850	1.8468	1.5155	1.5500
1 Euro	2.4411	2.4335	2.0039	2.0672
1 JPY	0.0243	0.0237	0.0182	0.0190

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Interest

Interest income and expense are recognised in the profit or loss using the effective interest method except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the consolidated statement of income include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis,
- interest on available-for-sale investment securities on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss,
- coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

3.4 Fees and Commissions

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Net Trading Income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

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

3.7 Tax expense

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

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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

Additional taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

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

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities

Recognition and initial measurement

The Group initially recognises loans and advances, funds borrowed, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

At inception a financial asset was classified in one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; or
- at fair value through profit or loss and within the category as held for trading.

Financial liabilities

The Group classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred) and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions as the Group retains all or substantially all the risks and rewards of ownership of such assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

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

Offsetting

Financial assets and liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group’s trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm’s length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held to maturity investment securities measured at amortised costs at both a specific asset and collective level. All individually significant loans and advances and investment securities measured at amortised cost are assessed for specific impairment. All individually significant loans and advances and held to maturity investment securities measured at amortised cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities measured at amortised cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities measured at amortised cost with similar risk characteristics.

In assessing collective impairment the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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

The Group writes off loans and advances when they are determined to be uncollectible (Note 9).

3.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with central banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. These include investments and derivative contracts that are not designated as effective hedging instruments. These derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognised in the statement of financial position at cost and subsequently are measured at their fair value.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

Loans and advances classified as loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Subsequent to initial recognition loans and advances are measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Investment Securities

Subsequent to initial recognition investment securities are accounted for depending on their classification as either held to maturity or available for sale.

Held to maturity financial assets

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

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Available for sale financial assets

Available-for-sale investments are those non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Investment Securities (continued)

Available for sale financial assets (continued)

Interest income is recognised in profit or loss using the effective interest method. Dividend income was recognised in profit or loss when the Group became entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments were recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment was sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset is reclassified from the available-for-sale category to the loans and receivables category if it otherwise would meet the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3.13 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.14 Property and Equipment

Recognition and Measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognised in other income/other expenses in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Property and Equipment (continued)

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	5 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment and Software	5 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3.15 Investment Property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

3.16 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Intangible Assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortization and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

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

Amortization is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortization methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3.18 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 Group as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the leases. Lease receivables are classified under loans in the accompanying statement of financial position.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as Lessee

Assets held under finance leases are recognised as assets of the Group 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 Group’s general policy on borrowing costs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Leases (continued)

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.

3.19 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.20 Funds borrowed, debt securities and subordinated liabilities

Funds borrowed, debt securities issued and subordinated liabilities are the Group's main sources of debt funding and are initially recognized at fair value less transaction costs.

Subsequent to initial recognition, funds borrowed, debt securities issued and subordinated liabilities are measured at their amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.21 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.22 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.23 Employee Benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

"T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "T.Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (the "Pension Funds") are separate legal entities and foundations recognised by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognised in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Employee Benefits (Continued)

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution (SSI) within 3 years as at the enactment date of the Banking Act. Under the Banking Act, in order to account for obligations, actuarial calculations should be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions, including the Ministry of Labor and Social Security. Such calculated obligation shall be settled in equal instalments in maximum 15 years.

Accordingly, the Group calculated its obligations on the Pension Funds transferable to the SSI in accordance with the Council of Ministers Decree for the purposes of determining the principles and procedures for such transfer.

Nonetheless, the related Article of the Banking Law was vetoed by the President and upon the President's litigation filed with the Constitutional Court this Article has been subsequently withdrawn by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as at the release of the related decision, the execution of this article was suspended as at the publication of the decision and the underlying reasoning of the decision for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007.

After the publication of the reasoning of the cancellation decision of the Constitutional Court, the articles of the new Social Security Law numbered 5754 related with the transfer of banks' pension fund participants to Social Security Institution within 3 years as at the enactment date were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

Present value for the liabilities of the transferees as at the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Savings Deposit Insurance Fund, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

The Main Opposition Party has appealed to the Higher Court on 19 June 2008 for cancellation of some articles, including the first paragraph of 20th temporary article of the Law, and requested them to be ineffective until the case of revocatory action is finalized. As at the date of the publication of these consolidated financial statements, there is no decision announced by the Constitutional Court regarding the revocatory action.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Employee Benefits (Continued)

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as at 31 December 2011 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per the actuarial report dated February 2012, the liabilities, subject to the transfer to the Social Security Institution, are financed by the assets of the Pension Fund.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after in the context expressed above, would be financed by the assets of the Pension Fund and would not result in any extra burden on the Bank.

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 21) in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.24 Earnings per Share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.25 Fiduciary Assets

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

3.26 Segment Reporting

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

For management purposes, the Group is currently organized into two operating divisions – "banking" and "stock brokerage and other". These divisions are the basis on which the Group reports its primary segment information.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.26 Segment Reporting (Continued)

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

3.27 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.28 New standards and interpretations not yet adopted

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

- Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 July 2012.
- IFRS 10 *Consolidated Financial Statements* supersedes IAS 27 (2008) and SIC-12 *Consolidation—Special Purpose Entities* and becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 11 *Joint Arrangements* supersedes IAS 31 and SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 12 *Disclosure of Interests in Other Entities* contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities and becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.
- IAS 27 *Separate Financial Statements (2011)* supersedes IAS 27 *Consolidated and Separate Financial Statements* (2008) and becomes effective for annual periods beginning on or after 1 January 2013.
- IAS 28 *Investments in Associates and Joint Ventures (2011)* supersedes IAS 28 *Investments in Associates* (2008) and becomes effective for annual periods beginning on or after 1 January 2013.
- IFRS 9 *Financial Instruments* could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.

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

4. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk,
- credit risk,
- market risk,
- operational risk.

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

Through its normal operations, the Group is exposed to a number of risks, the most significant of which are liquidity, credit, operational and market risk. The risk management group exercises its functions according to the International Regulations of the Risk Management Group, and directly reports to the Board of Directors. Responsibility for the management of these risks rests with the Board of Directors, which delegates the operational responsibility to the Group's general management and appropriate sub-committees.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is a substantial risk in Turkish markets, which exhibit significant volatility. The Group is exposed to a certain degree of mismatch between the maturities of its assets and liabilities.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets which it judges sufficient to meet its commitments.

The Group uses various methods, including predictions of daily cash positions, to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Bank. For the purposes of monitoring and assessing the liquidity position of the Parent Bank's assets and liabilities, the liquidity rate is weekly calculated. The ratio during the year was as follows:

	31 December 2011 %	31 December 2010 %
Average during the period	168.10	176.10
Highest	249.04	237.57
Lowest	139.09	139.43

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2011 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	347	347
Balances with central bank	-	-	-	7,853	7,853
Reserve deposits at central bank	79,920	-	32,989	-	112,909
Loans and advances to banks	372,772	-	-	52,454	425,226
Interbank money market placements	102,437	-	-	-	102,437
Funds lent under repurchase agreements	6,928	-	-	-	6,928
Trading assets	217	26,290	62,178	16,287	104,972
Derivative assets	16,762	13,081	15,510	-	45,353
Loans and advances to customers	442,241	893,590	4,931,282	14,868	6,281,981
Available for sale investment securities	73,101	219,187	1,998,063	27,887	2,318,238
Held to maturity investment securities	126,955	-	-	-	126,955
Other assets	1,668	-	-	125,902	127,570
Total	**1,223,001**	**1,152,148**	**7,040,022**	**245,598**	**9,660,769**
LIABILITIES					
Obligations under repurchase agreements	946,696	1,058	-	-	947,754
Derivative liabilities	23,850	12,480	12,413	-	48,743
Funds borrowed and subordinated loan	499,805	555,781	5,824,949	-	6,880,535
Debt securities issued	-	-	-	-	-
Payables to stock exchange money market	420,609	-	-	-	420,609
Current account of loan customers	7,894	-	-	-	7,894
Taxes and dues payable	4,085	-	-	-	4,085
Corporate tax liability	13,583	-	-	-	13,583
Other liabilities	43,136	-	-	105,525	148,661
Total	**1,959,658**	**569,319**	**5,837,362**	**105,525**	**8,471,864**

The maturity analysis for certain asset and liability items is estimated.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

As at 31 December 2010 the estimated maturity analysis for certain assets and liabilities is as follows:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Maturity	Total
ASSETS					
Cash and cash equivalents	-	-	-	383	383
Balances with central bank	-	-	-	7,137	7,137
Reserve deposits at central bank	57,030	-	-	-	57,030
Loans and advances to banks	390,865	150,133	-	14,896	555,894
Interbank money market placements	1,228	-	-	-	1,228
Funds lent under repurchase agreements	941	-	-	5,661	6,602
Trading assets	1,140	3,155	79,105	25,457	108,857
Derivative assets	2,693	4,259	4,309	-	11,261
Loans and advances to customers	398,017	823,195	3,417,049	22,104	4,660,365
Available for sale investment securities	319,534	29,470	1,740,643	41,060	2,130,707
Held to maturity investment securities	2,120	195,150	113,017	-	310,287
Other assets	401	-	-	45,801	46,202
Total	**1,173,969**	**1,205,362**	**5,354,123**	**162,499**	**7,895,953**
LIABILITIES					
Obligations under repurchase agreements	1,183,304	2,760	-	-	1,186,064
Derivative liabilities	915	6,311	3,128	-	10,354
Funds borrowed and subordinated loan	378,997	412,425	4,339,375	-	5,130,797
Debt securities issued	149,447	44,835	-	-	194,282
Payables to stock exchange money market	247,669	-	-	-	247,669
Taxes and dues payable	4,033	-	-	-	4,033
Corporate tax liability	12,588	-	-	-	12,588
Other liabilities	-	-	-	87,514	87,514
Total	**1,976,953**	**466,331**	**4,342,503**	**87,514**	**6,873,301**

The maturity analysis for certain asset and liability items is estimated.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Analysis of financial liabilities by remaining contractual maturities;

As at 31 December 2011	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	420,609	-	-	-	-	-	420,609
Funds borrowed and subordinated loan	283,801	131,635	620,640	2,731,497	3,585,072	(472,110)	6,880,535
Obligations under repurchase agreements	942,945	7,192	1,060	-	-	(3,443)	947,754
Total	**1,647,355**	**138,827**	**621,700**	**2,731,497**	**3,585,072**	**(475,553)**	**8,248,898**

As at 31 December 2010	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Liabilities							
Payables to stock exchange money market	247,669	-	-	-	-	-	247,669
Funds borrowed and subordinated loan	235,519	97,834	234,505	2,152,598	2,687,831	(277,490)	5,130,797
Obligations under repurchase agreements	1,079,950	109,124	7,685	-	-	(10,695)	1,186,064
Debt securities issued	-	151,001	47,256	-	-	(3,975)	194,282
Total	**1,563,138**	**357,959**	**289,446**	**2,152,598**	**2,687,831**	**(292,160)**	**6,758,812**

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

As at 31 December 2011	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	730,420	123,785	96,597	867,689	484,799	(38,871)	2,264,419
Forward contracts	345,062	244,870	534,851	110,064	-	-	1,234,847
Future contracts	-	-	-	-	-	-	-
Options	407,930	620,790	389,130	49,904	-	-	1,467,754
Others	1,939	-	-	-	-	-	1,939
Total	**1,485,351**	**989,445**	**1,020,578**	**1,027,657**	**484,799**	**(38,871)**	**4,968,959**

As at 31 December 2010	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Adjustments	Total
Gross settled:							
Swap agreements	62,476	(2,224)	135,223	438,408	90,452	7,207	731,542
Forward contracts	24,461	-	-	11,555	-	-	36,016
Future contracts	-	498,205	1,074,965	-	-	-	1,573,170
Options	127,313	86,321	510,212	72,468	-	-	796,314
Others	-	34,441	-	-	82,539	-	116,980
Total	**214,250**	**616,743**	**1,720,400**	**522,431**	**172,991**	**7,207**	**3,254,022**

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk arises where the possibility exists of a counterparty defaulting on its obligations. The most important step in managing this risk is the initial decision whether or not to extend credit. The granting of credit is authorized at the Board level or at appropriate levels of management depending on the size of the proposed commitment, and in accordance with banking regulations in Turkey. The Group places strong emphasis on obtaining sufficient collateral from borrowers including, wherever possible, mortgages or security over other assets.

The credit portfolio is monitored according to the overall composition and quality of the credit portfolio considering factors such as loan loss reserves, existence and quality of collateral or guarantees according to the standards and limits set legally and internally. The Bank has also an internal credit risk rating system in managing the credit risk, which takes into account various financial and nonfinancial indicators for the evaluation of corporate and also guarantees.

The credit monitoring department screens the creditworthiness of loan customers once every six months regularly. The debtors' creditworthiness is screened regularly in line with Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves". The credit limits have been set by the Board of Directors, the Banks credit committee and the credit management. The Bank takes sufficient collateral for the loans and other receivables extended. The collaterals obtained consist of personal suretyship, mortgage, cash blockage and client checks.

The limits are also identified for the transactions made with the banks. The credit risk is managed by considering the creditworthiness and the limits of counterparties.

There are control limits over the positions on forwards, options and similar other agreements. Those limits are controlled by the management on a regular basis. The credit risk is managed together with the potential risks arising from the fluctuations in the market. Credit risk, market risk, liquidity risk and other risks are managed as a whole.

If exposed to a significant degree of credit risk, the Bank reduces the total risk by using, exercising or selling forward transactions and other similar contracts.

The compensated non-cash loans are evaluated at the same risk weight as the non-performing loans.

Rescheduled loans are monitored within the Bank's internal rating application, as well as the monitoring applications required by the related regulations. All precautions are taken in order to classify the companies' risks and their current rating may change within this internal rating applications.

The Bank monitors and investigates the maturity concentration and the risks which are different than their normal pattern.

The international operations are made with many correspondent banks in various countries. The counterparty limits are set with operations made with the banks.

The Bank being an active participant in international banking market is not exposed to a significant degree of credit risk when evaluated with the financial operations of other financial institutions.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

The credit portfolio is also monitored according to various criteria including industry sector, geographical area and risk categories. Credit risk by types of borrowers is as follows:

	Loans and Advances to Customers		Marketable Securities		Loans and Advances to Banks and Others	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers						
Private Sector	5,887,901	4,060,086	204,794	108,280	190,522	172,446
Public Sector	-	-	2,207,832	2,306,593	-	-
Banks	374,220	565,102	94,413	73,913	534,591	555,894
Retail Customers	19,860	35,177	-	-	-	-
Share Certificates	-	-	43,126	61,065	-	-
Total	**6,281,981**	**4,660,365**	**2,550,165**	**2,549,851**	**725,113**	**728,340**
Loans according to geographical concentration						
Domestic	6,260,562	4,579,374	2,357,999	2,441,046	681,932	721,649
European Union Countries	265	39,963	87,969	88,921	6,207	640
OECD Countries (*)	-	-	-	-	1,652	1,222
Off-Shore Banking Regions	460	41,028	104,197	19,884	114	50
USA, Canada	-	-	-	-	35,208	4,779
Other Countries	20,694	-	-	-	-	
Total	**6,281,981**	**4,660,365**	**2,550,165**	**2,549,851**	**725,113**	**728,340**

(*) EU countries, OECD countries except USA and Canada

The geographical concentration of assets, liabilities and other credit related commitments are as follows:

31 December 2011	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	9,849,071	97	3,345,788	33	10,734,291	100
Euro Zone	94,443	1	3,724,864	37	-	-
Offshore	104,774	1	37,914	-	-	-
USA, Canada	43,691	1	3,005,803	30	-	-
OECD Countries (*)	1,652	-	-	-	-	-
Other Countries	20,738	-	-	-	-	-
	10,114,369		**10,114,369**		**10,734,291**	

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

31 December 2010	Total Assets	%	Total Liabilities And Equity	%	Other Credit Related Commitments	%
Turkey	8,129,943	97	3,301,935	40	5,917,038	100
Euro Zone	130,204	2	2,808,819	33	-	-
Offshore	61,282	1	59,429	1	-	-
USA, Canada	4,780	-	2,157,226	26	-	-
OECD Countries (*)	1,200	-	-		-	-
	8,327,409		**8,327,409**		**5,917,038**	

(*) EU countries, OECD countries except USA and Canada

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

	31 December 2011	31 December 2010
Gross maximum exposure		
Cash and cash equivalents, balances and reserve deposit at the Central Bank and other banks	546,335	620,444
Interbank money market placements	102,437	843
Funds lent under repurchase agreements	6,928	6,987
Trading assets	104,972	108,857
Derivative financial assets held for trading	45,353	11,261
Loans and advances to customers	6,281,981	4,660,365
Held to maturity investment securities	126,955	310,287
Available for sale investment securities	2,318,238	2,130,707
Total	**9,533,199**	**7,849,751**
Commitments and contingencies	**1,784,006**	**2,663,016**
Total credit risk exposure	**11,317,205**	**10,512,767**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets as at 31 December 2011 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	425,226	-	-	-	425,226
Loans and advances to customers	6,293,844	28,875	(12,215)	(28,523)	6,281,981
Corporate lending	5,398,789	14,192	(9,393)	(24,419)	5,379,169
Small business lending	875,334	13,235	(1,374)	(4,104)	883,091
Other	19,721	1,448	(1,448)	-	19,721
Total	**6,719,070**	**28,875**	**(12,215)**	**(28,523)**	**6,707,207**

Credit quality per class of financial assets as at 31 December 2010 is as follows:

	Neither past due nor impaired	Past due not impaired and individually impaired	Specific reserve for impairment losses on loans	Portfolio reserve for impairment losses on loans	Total
Loans and advances to banks	555,894	-	-	-	555,894
Loans and advances to customers	4,639,259	83,832	(9,837)	(52,889)	4,660,365
Corporate lending	3,236,791	65,488	(7,714)	(37,324)	3,257,241
Small business lending	1,359,780	17,368	(1,147)	(15,565)	1,360,436
Other	42,688	976	(976)	-	42,688
Total	**5,195,153**	**83,832**	**(9,837)**	**(52,889)**	**5,216,259**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

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

	31 December 2011	**31 December 2010**
Loans and advances to customers		
Corporate lending	58,880	82,241
Small business lending	3,318	131,634
Total	**62,198**	**213,875**

Credit risk is evaluated according to the Bank's internal rating. Non-financial service customers included in credit portfolio are rated with respect to the Bank's internal rating and ratings of the financial service customers, which are rated by external rating firms, are matched to the Bank's internal ratings. The loans rated according to the possibility of being in default are classified from the highest grade (top grade) to the lowest (below average) as below; at the bottom of the table there are credits in default (impaired) according to rating model.

	31 December 2011	**31 December 2010**
Basic Loan Quality Categories		
Top Grade	362,285	528,085
High Grade	2,475,919	2,271,426
Average Grade	3,867,001	2,282,012
Below Average Grade	796,548	612,491
Impaired	27,698	26,485
Total	**7,529,451**	**5,720,499**

Category "top" shows that the debtor has a very strong financial structure, "high" shows that the debtor has a strong financial structure "average" shows the debtor's financial structure is good enough while "below average" category shows that debtor's financial structure is under risk in the short and medium term.

As at reporting date, the total of the Group's cash and non-cash loans and financial lease receivables (gross amount including the non performing loans, excluding the specific provisions) is TL 7,591,698; and TL 62,247 of these customers have not been rated. (31 December 2010: TL 5,817,009; TL 96,510).

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of financial assets and liabilities and other financial contracts will have an adverse financial impact. The primary risks within the Group’s activities are interest rate and exchange rate risk. Turkish interest rates can be volatile, and a substantial part of the Group’s statement of financial position is denominated in currencies other than the Turkish Lira (principally the US Dollar and Euro-zone currencies).

The Group’s management of its exposure to market risk is performed through the Asset and Liability Committee, comprising members of senior management, and through limits on the positions which can be taken by the Group’s treasury and financial assets trading divisions.

The Group benefits from VAR methods, stress testing and scenario analysis for measuring market risk. VAR calculations are made by choosing the 90, 95, and 99% confidence intervals, 1 day/10 days holding periods.

Interest Rate Risk

The Group is exposed to interest rate risk either through market value fluctuations of statement of financial position items, i.e. price risk, or the impact of rate changes on interest sensitive assets and liabilities. In Turkey, interest rates are highly volatile and this may result in significant changes in prices of financial instruments including government bonds and treasury bills. The major sources of funding are borrowings. Interest rate sensitivity of the assets, liabilities and off-balance sheet items are managed by the Group. Progressive forecasting is determined with simulation reports, interest rate fluctuation effects are identified with sensitivity reports and scenario analyses.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2011:

	Up to 3 Months	3 to 12 Months	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	347	347
Balance with the Central Bank	-	-	-	7,853	7,853
Reserve deposits at central bank	-	-	-	112,909	112,909
Loans and advances to banks	372,772	-	-	52,454	425,226
Interbank money market placements	102,437	-	-	-	102,437
Funds lent under repurchase agreements	6,928	-	-	-	6,928
Trading assets	11,894	36,246	40,545	16,287	104,972
Derivative assets	16,767	15,760	12,826	-	45,353
Loans and advances to customers	3,674,584	2,156,943	435,586	14,868	6,281,981
Available for sale investment securities	1,269,732	304,502	716,117	27,887	2,318,238
Held to maturity investment securities	126,955	-	-	-	126,955
Other assets	-	-	-	127,570	127,570
Total	**5,582,069**	**2,513,451**	**1,205,074**	**360,175**	**9,660,769**
LIABILITIES					
Obligations under repurchase agreements	946,696	1,058	-	-	947,754
Derivative liabilities	23,856	12,480	12,407	-	48,743
Funds borrowed and subordinated loan	5,221,722	1,393,950	264,863	-	6,880,535
Payables to stock exchange money market	420,609	-	-	-	420,609
Current account of loan customers	7,894	-	-	-	7,894
Other liabilities	43,136	-	-	105,525	148,661
Total	**6,663,913**	**1,407,488**	**277,270**	**105,525**	**8,454,196**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Risk (continued)

The below table summarizes the Group's exposure to interest rate risks as at 31 December 2010:

	Up to 3 Months	3 to 12 Month	Over 1 Year	No Interest Rate	Total
ASSETS					
Cash and cash equivalents	-	-	-	383	383
Balances with central bank	-	-	-	7,137	7,137
Reserve deposits at central bank	-	-		57,030	57,030
Loans and advances to banks	390,865	150,133	-	14,896	555,894
Interbank money market placements	1,228	-	-	-	1,228
Funds lent under repurchase agreements	6,602	-	-	-	6,602
Trading assets	6,825	12,480	64,095	25,457	108,857
Derivative assets	2,693	4,259	4,309	-	11,261
Loans and advances to customers	3,103,355	1,289,967	244,939	22,104	4,660,365
Available for sale investment securities	1,305,095	184,116	600,436	41,060	2,130,707
Held to maturity investment securities	115,137	195,150	-	-	310,287
Other assets	-	-	-	46,202	46,202
Total	**4,931,800**	**1,836,105**	**913,779**	**214,269**	**7,895,953**
LIABILITIES					
Obligations under repurchase agreements	1,183,304	2,760	-	-	1,186,064
Derivative liabilities	2,155	7,351	848	-	10,354
Funds borrowed and subordinated loans	4,066,389	976,918	87,490	-	5,130,797
Debt securities issued	149,447	44,835	-	-	194,282
Payables to stock exchange money market	247,669	-	-	-	247,669
Other liabilities	-	-	-	87,514	87,514
Total	**5,648,964**	**1,031,864**	**88,338**	**87,514**	**6,856,680**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

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

	TL %	Euro %	US Dollar %	JPY %
Assets				
Balances with central bank & banks	11.55	-	5.38	-
Interbank money market placements	11.35	-	-	-
Funds lent under repurchase agreements	9.89	-	-	-
Trading assets	8.81	-	-	-
Loans	13.07	4.88	4.05	4.96
Lease receivables	-	4.44	2.98	-
Available for sale investment securities	9.09	6.03	5.79	-
Held to maturity investment securities	35.10	-	-	-
Liabilities				
Obligations under repurchase agreements	6.08	1.02	1.78	-
Funds borrowed and subordinated loan	10.30	2.11	0.88	-
Payables to stock exchange money market	11.49	-	-	-
Current account of loan customers	6.50	1.00	1.00	-

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

	TL %	Euro %	US Dollar %	JPY %
Assets				
Balances with central bank & banks	8.74	-	-	-
Interbank money market placements	6.13	-	-	-
Funds lent under repurchase agreements	6.98	-	-	-
Trading assets	7.97	-	-	-
Loans	9.72	3.93	3.41	4.96
Lease receivables	-	4.06	6.94	4.96
Available for sale investment securities	9.49	5.49	5.83	-
Held to maturity investment securities	13.59	-	-	-
Liabilities				
Obligations under repurchase agreements	6.70	1.00	1.03	-
Funds borrowed and subordinated loan	6.10	1.40	1.03	-
Debt securities issued	8.34	-	-	-
Payables to stock exchange money market	7.10	-	-	-

The Group's interest rate sensitivity is calculated according to the market risk related to assets and liabilities. In this context, at the reporting date, if interest rates had been 1 bp higher for TL and foreign currency and all other variables were held constant, the net decrease on the profit and shareholders' equity would have been TL 40,210 (2010: TL 54,827) and if interest rates had been 1 bp lower for TL and foreign currencies, the net increase on the profit and shareholders' equity would have been TL 40,166 (2010: TL 56,308).

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest Rate Sensitivity (continued)

The Group's available for sale portfolio in the current period increased approximately 14% relatively to prior period and the market value increased approximately 9%. In addition to this, foreign exchange assets in the Group's portfolio are approximately 25% of the portfolio in the current period while this ratio was 22% in the prior period in terms of fair value.

Other Price Risks

Equity price sensitivity

The sensitivity analysis below has been determined based on the exposure to stock price risks at the reporting date.

If the inputs (equity prices) to the valuation model had been 20% higher/lower while all other variables were held constant:

- Group is exposed to equity price risks arising from equity investments of firms traded in Istanbul Stock Exchange. Since these investments are classified as financial assets held for trading, only the net profit/loss will be affected.
- As at the reporting date, equity price sensitivity of the Group has been analyzed. The analysis has been based on the assumption that the inputs (equity prices) to the valuation model are 20% higher/lower while all other variables are constant.
- According to the analysis results under these assumptions; profit/loss will increase/decrease by TL 955 (31 December 2010: TL 2,939), marketable securities classified as financial assets held for trading would decrease/increase by TL 2,307 (31 December 2010: TL 4,485 marketable securities value increase fund increase/decrease).

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2011:

	Euro	US Dollar	Yen	Other Foreign Currencies	Total
Assets					
Cash and cash equivalents including Central Bank	2,647	88	-	8	2,743
Reserve deposits at Central Bank	79,920	32,989	-	-	112,909
Loans and advances to banks	6,528	397,328	184	2,141	406,181
Trading investment securities	-	716	-	-	716
Derivative financial instruments	15,457	10,664	-	-	26,121
Loans and advances to customers	2,765,463	3,397,377	215	-	6,163,055
Available for sale investment securities	38,501	532,542	-	-	571,043
Property and equipment	-	-	-	2	2
Other assets	3,507	38,131	-	3	41,641
Total Assets	**2,912,023**	**4,409,835**	**399**	**2,154**	**7,324,411**
Liabilities					
Obligations under repurchase agreements	41,637	136,028	-	297	177,962
Derivative financial instruments	15,970	12,822	-	-	28,792
Funds borrowed and subordinated loan	3,163,717	3,693,055	-	-	6,856,772
Current account of loan customers	156	5,839	-	340	6,335
Other liabilities	4,800	15,311	-	369	20,480
Total Liabilities	**3,226,280**	**3,863,055**	**-**	**1,006**	**7,090,341**
Net Statement of Financial Position	**(314,257)**	**546,780**	**399**	**1,148**	**234,070**
Off Balance Sheet Position					
Derivatives to sell	747,673	327,183	568	2,386	1,077,810
Derivatives to buy	(522,082)	(886,485)	(889)	(2,386)	(1,411,842)
	225,591	**(559,302)**	**(321)**	**-**	**(334,032)**
Net Position	**(88,666)**	**(12,522)**	**78**	**1,148**	**(99,962)**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Currency risk (continued)

The below table summarizes the foreign currency position of the Group as at 31 December 2010:

	Euro	US Dollar	Yen	Other Foreign Currencies	Total
Assets					
Cash and cash equivalents including Central Bank	2,245	68	-	64	2,377
Reserve deposits at Central Bank	57,030	-	-	-	57,030
Loans and advances to banks	1,273	7,563	226	1,303	10,365
Derivative financial instruments	4,745	3,928	-	-	8,673
Loans and advances to customers	2,237,835	2,281,316	2,954	-	4,522,105
Available for sale investment securities	67,063	401,358	-	-	468,421
Property and equipment	-	-	-	1	1
Other assets	3,269	6,936	-	5	10,210
Total Assets	**2,373,460**	**2,701,169**	**3,180**	**1,373**	**5,079,182**
Liabilities					
Obligations under repurchase agreements	33,768	108,289	-	242	142,299
Derivative financial liabilities held for trading	3,418	4,131	-	-	7,549
Funds borrowed and subordinated loan	2,413,648	2,657,533	-	599	5,071,780
Other liabilities	2,808	19,536	-	171	22,515
Total Liabilities	**2,453,642**	**2,789,489**	**-**	**1,012**	**5,244,143**
Net Statement of Financial Position	**(80,182)**	**(88,320)**	**3,180**	**361**	**(164,961)**
Off Balance Sheet Position					
Derivatives to sell	125,430	265,787	8,749	-	399,966
Derivatives to buy	(134,939)	(176,048)	(12,360)	-	(323,347)
	(9,509)	89,739	(3,611)	-	76,619
Net Position	**(89,691)**	**1,419**	**(431)**	**361**	**(88,342)**

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

4. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Foreign currency sensitivity

No long or short position is taken due to the uncertainties and changes in the markets therefore; no exposure to foreign currency risk is expected. However, possible foreign currency risks are calculated on a weekly and monthly basis under the standard method in the foreign currency risk table and their results are reported to the official authorities and the Group's top management.

Thus, foreign currency risk is closely monitored. Foreign currency risk, as a part of general market risk, is also taken into consideration in the calculation of Capital Adequacy Standard Ratio.

No short position is taken regarding foreign currency risk, whereas, counter position is taken for any foreign currency risks arising from customer transactions as to avoid foreign currency risk.

The Group has no foreign currency and net foreign investment hedging transactions through derivative instruments.

The Group is mostly exposed to Euro, US Dollar and JPY currencies.

The following table details the Group's sensitivity to 10% increase/decrease in the TL against US Dollar, Euro and JPY.

	% Increase	Effect on profit or loss		Effect on equity	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
US Dollar	10%	(3,250)	(2,681)	1,998	3,003
Euro	10%	(8,869)	(9,195)	3	226
JPY	10%	8	(43)	-	-
Others	10%	115	36	-	-

	% Decrease	Effect on profit or loss		Effect on equity	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
US Dollar	10%	3,250	2,681	(1,998)	(3,003)
Euro	10%	8,869	9,195	(3)	(226)
JPY	10%	(8)	43	-	-
Others	10%	(115)	(36)	-	-

The Group's sensitivity to foreign currency has increased during the current period mainly due to the change in currency position.

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

4. FINANCIAL RISK MANAGEMENT (continued)

Capital management – regulatory capital

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2011 and 2010 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The Bank's and its financial subsidiaries' regulatory capital position on a consolidated basis at 31 December 2011 and 2010 was as follows:

	2011	**2010**
Tier 1 capital	1,537,565	1,321,051
Tier 2 capital	141,613	152,098
Deductions from capital	(190,867)	(180,857)
Total regulatory capital	**1,488,311**	**1,292,292**
Risk-weighted assets	6,956,797	4,889,346
Value at market risk	642,238	652,375
Operational risk	590,624	436,557
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	18.17%	21.62%
Total Tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	18.77%	22.10%

As at 31 December 2011, the Bank's capital adequacy ratio on an unconsolidated basis is 19.08% (31 December 2010 – 22.73%). The Group's consolidated capital adequacy ratio as at 31 December 2011 is 18.17% (31 December 2010 – 21.62%).

4. FINANCIAL RISK MANAGEMENT (continued)

Operational risk

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

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

In the assessment of operational risk, "Self-Assessment Methodology" is applied. This method requires identifying the risks through the participation of the personnel who is responsible for undertaking the operation. Both qualitative and quantitative methods are used in the measurement and evaluation of operational risk. Information derived from the "Impact-Likelihood Analysis", "Control Culture Survey" and "Loss Database" is used in the measurements.

All the operational risks that are exposed during the operations, the risk levels of the operations and/or new products/services, together with the losses of the Bank arising from operational risks are regularly monitored by the Risk Management Department of the Bank, and if deemed necessary, the risk levels are updated and periodically reported to the Risk Committee and the Board of Directors.

The Group calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 June 2007, using gross profit of the last three years 2010, 2009 and 2008 ("the Basic Indicator Approach). The amount, calculated as TL 47,249 as at 31 December 2011 (31 December 2010: TL 72,919) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 590,624 (31 December 2010: TL 911,488) and is calculated as 12.5 times the operational risk.

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

5. CASH AND CASH EQUIVALENTS

	31 December 2011	31 December 2010
Cash on hand – Turkish Lira (“TL”)	190	195
Cash on hand – Foreign currencies (“FC”)	157	188
Total cash and cash equivalents	**347**	**383**

There is blockage on the use of cash and cash equivalents amounting to TL 7,145 and TL 6,062 as at 31 December 2011 and 31 December 2010, respectively.

	31 December 2011	31 December 2010
Cash and cash equivalents	347	383
Loans and advances to banks (with original maturity of less than 3 months)	417,127	549,700
Unrestricted balances with the central bank	7,853	7,137
Funds lent under repurchase agreements	6,925	6,198
Interbank money market placements	102,437	1,228
Cash and cash equivalents in the statement of cash flows	**534,689**	**564,646**

6. BALANCES WITH CENTRAL BANK

a) Unrestricted balances with central bank

	31 December 2011	31 December 2010
Demand deposits – TL	5,267	4,948
Demand deposits – FC	2,586	2,189
Total	**7,853**	**7,137**

b) Reserve Deposits at central bank

	31 December 2011	31 December 2010
Foreign currency reserves	112,909	57,030
Total	**112,909**	**57,030**

In accordance with the “Communiqué Regarding the Reserve Requirements no. 2005/1”, banks operating in Turkey are required to maintain reserves in Central Bank of the Republic of Turkey “CBRT” in TL for TL liabilities and in USD or Euro for foreign currency liabilities. With the changes made in the “Communiqué Regarding the Reserve Requirements”, up to 40% of the reserve requirement amount for TL liabilities can be held as foreign currency, the reserve requirement amount for precious metal account in foreign currency liabilities can be held as standard gold and up to 10% of the reserve requirement amount for foreign currency liabilities except precious metal accounts can be held as standard gold among CBRT.

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

6. BALANCES WITH CENTRAL BANK (continued)

The reserve rates for TL liabilities are between 5% and 11% for TL deposits according to their maturities as of 31 December 2011 (31 December 2010: 6% for all TL liabilities). The reserve rates for foreign currency liabilities are between 6% and 11% for all foreign currency liabilities according to their maturities as of 31 December 2011 (31 December 2010: 11% for all foreign currency liabilities).

7. LOANS AND ADVANCES TO BANKS

	31 December 2011	31 December 2010
Domestic Banks		
Demand deposits – TL	5,060	4,531
Time deposits – TL	13,985	540,998
Demand deposits – FC	4,216	3,673
Time deposits – FC	358,784	-
	382,045	**549,202**
Foreign Banks		
Demand deposits – FC	43,181	6,692
Time deposits – FC	-	-
	43,181	**6,692**
Total	**425,226**	**555,894**

The time deposits above mature within 1 - 90 days and earn interest at rates ranging 11.43-12.00% for TL balances, 0.21-6.00 for foreign currency balances as at the reporting date (31 December 2010: Maturity: 1 - 180 days; interest rate 8.00-9.21% for TL balances).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2011	31 December 2010
Trading assets		
Government bonds and treasury bills in TL	83,623	83,019
Mutual funds	5,394	1,830
Equity shares	15,239	24,008
Government bonds and treasury bills in FC	716	-
Total	**104,972**	**108,857**

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 273 and also securities given as collateral or blocked amounting to TL 6,905 as at the reporting date (31 December 2010: TL 441 and TL 4,909, respectively).

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

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2011	31 December 2010
Short-term loans	279,118	375,513
Long-term loans	5,987,503	4,251,005
Finance lease receivables, net	28,400	70,088
Total performing loans	**6,295,021**	**4,696,606**
Non-performing loans	27,698	26,485
Total loans	**6,322,719**	**4,723,091**
Less: Specific reserve for impairment losses on loans	(12,215)	(9,837)
Less: Portfolio reserve for impairment losses on loans	(28,523)	(52,889)
Total loans	**6,281,981**	**4,660,365**

Movements in the reserve for impairment losses on loans for the year ended 31 December are as follows:

	1 January – 31 December 2011	1 January – 31 December 2010
Specific reserve for cash loans:		
As at 1 January	9,837	8,844
Charge for the year	2,788	1,818
Reserve released and write offs	(410)	(825)
As at 31 December	**12,215**	**9,837**
Portfolio reserve for cash loans:		
As at 1 January	52,889	63,367
Charge for the year	3,943	-
Reserve released and write offs	(28,309)	(10,478)
As at 31 December	**28,523**	**52,889**
Total reserve for impairment losses on loans	**40,738**	**62,726**

Loans can be further analyzed by customer groups as follows:

	31 December 2011	31 December 2010
Sector		
Corporate customers	5,412,980	3,302,396
Small business	888,570	1,377,031
Other	21,169	43,664
	6,322,719	**4,723,091**

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

	31 December 2011	31 December 2010
Currency		
Euro	1,720,168	1,450,505
US Dollar	2,781,565	1,670,582
Foreign currency indexed TL loans	1,661,107	1,413,206
Turkish Lira	159,664	186,492
Other currencies	215	2,306
Total	**6,322,719**	**4,723,091**

Foreign currency indexed loans represent loans extended in Turkish Lira but the related principal and interest are repaid at the Turkish Lira equivalent of the currency to which they are indexed.

Performing loans, receivables and non-performing loans can be analyzed by sector as follows:

Sector	**31 December 2011**			**31 December 2010**		
	Long Term	Short Term	Non-performing	Long Term	Short Term	Non-performing
Energy	2,486,880	27,828	-	1,591,814	13,192	-
Finance	922,734	56,268	5,532	891,979	191,065	5,531
Tourism	223,636	-	5,312	203,616	-	-
Construction	257,552	-	513	185,987	8,821	485
Metal	220,553	59,611	605	181,519	-	593
Cement	154,522	-	-	117,965	-	-
Pulp and Paper	111,136	-	689	114,722	-	862
Chemical	132,575	9,934	-	106,332	5,051	-
Food and Beverages	71,182	21,964	1,159	84,028	76,796	1,106
Plastics	84,839	-	-	67,303	2,385	-
Textile	97,773	-	2,186	50,910	-	3,903
Motor Vehicles	134,245	15,269	-	50,101	-	-
Ceramics	131,215	-	-	36,082	2,090	-
Health Services	42,774	-	5,979	33,602	-	8,778
Lumber and Wood	20,934	-	-	26,782	-	-
Education	22,087	9,231	-	17,399	-	-
Machinery Production	3,421	-	278	7,932	-	301
Farming	19,068	-	3,419	3,472	-	3,950
Shipyard	22,039	-	-	-	-	-
Other	856,738	79,013	2,026	549,131	76,530	976
Total	**6,015,903**	**279,118**	**27,698**	**4,320,676**	**375,930**	**26,485**

Interest rates charged for short-term loans are 11.50-15.50% for Turkish Lira loans, 2.19-6.50% for Euro loans and 2.50-6.06% for US Dollar loans per annum during the year (31 December 2010: 7.40-9.75% for Turkish Lira loans, 1.55-5.00% for Euro loans and 2.70-4.30% for US Dollar loans).

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

The Bank mainly extends long-term loans to customers. Interest rates ranges for long term loans are as follows:

	31 December 2011	31 December 2010
Euro	2.43-6.70%	2.03-7.75%
US Dollar	1.91-9.31%	1.48-9.31%
TL	9.50-18.50%	10.40-18.50%
JPY	4.96%	4.96%

TL 184,614 of the cash loans are extended to related parties. Related parties have TL 117,903 non-cash loan risk as at the reporting date (31 December 2010: TL 198,369 and TL 117,758; respectively).

The collaterals for the loans extended to the related parties are TL 27,300 as at the reporting date (31 December 2010: TL 23,250).

Loans include finance lease receivables. Components of the lease contracts are as follows:

	31 December 2011	31 December 2010
Lease payments receivable	29,577	72,344
(Less): Unearned income	(1,177)	(2,256)
Finance lease receivables	**28,400**	**70,088**
Current maturity – net	711	26,768
Long - term portion – net	27,689	43,320
Finance lease receivables	**28,400**	**70,088**

For the year ended 31 December 2011, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2012	-	3,396	-	2,185
2013	-	1,444	-	510
2014	-	4,713	-	-
	-	**9,553**	**-**	**2,695**

For the year ended 31 December 2010, currency components of finance lease receivables are as follows (amounts in thousands and original currencies):

	TL	Euro	JPY	US Dollar
2011	-	7,704	28,675	1,956
2012	-	7,727	-	5,222
2013	-	2,776	-	5,506
2014	-	5,924	-	-
	-	**24,131**	**28,675**	**12,684**

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

Set out below is an analysis of loans as at 31 December 2011 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	5,398,789	875,334	19,721	-	6,293,844
Past due not impaired	1,177	-	-	-	1,177
Individually impaired	13,015	13,235	1,448	-	27,698
Total gross	**5,412,981**	**888,569**	**21,169**	**-**	**6,322,719**
Less: reserve for individually impaired loans	(9,393)	(1,374)	(1,448)	-	(12,215)
Less: reserve for collectively impaired loans	-	-	-	(28,523)	(28,523)
Total reserve for impairment	(9,393)	(1,374)	(1,448)	(28,523)	(40,738)
	5,403,588	**887,195**	**19,721**	**(28,523)**	**6,281,981**

Set out below is an analysis of loans as at 31 December 2010 by customer groups and impairment:

	Corporate	Small Business	Other	Portfolio Reserve	Total
Neither past due nor impaired	3,236,907	1,359,661	42,688	-	4,639,256
Past due not impaired	50,629	6,721	-	-	57,350
Individually impaired	14,860	10,649	976	-	26,485
Total gross	**3,302,396**	**1,377,031**	**43,664**	**-**	**4,723,091**
Less: reserve for individually impaired loans	(7,714)	(1,147)	(976)	-	(9,837)
Less: reserve for collectively impaired loans	-	-	-	(52,889)	(52,889)
Total reserve for impairment	(7,714)	(1,147)	(976)	(52,889)	(62,726)
Total net	**3,294,682**	**1,375,884**	**42,688**	**(52,889)**	**4,660,365**

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

9. LOANS AND ADVANCES TO CUSTOMERS (continued)

A reconciliation of the specific reserve for impairment losses by customer groups is as follows:

	Corporate	Small Business	Other	Total
At 1 January 2011	7,714	1,147	976	9,837
Charge for the year	1,791	350	647	2,788
Recoveries, releases and write offs	(112)	(123)	(175)	(410)
At 31 December 2011	**9,393**	**1,374**	**1,448**	**12,215**

	Corporate	Small Business	Other	Total
At 1 January 2010	8,529	315	-	8,844
Charge for the year	-	842	976	1,818
Recoveries, releases and write offs	(815)	(10)	-	(825)
At 31 December 2010	**7,714**	**1,147**	**976**	**9,837**

Of the total aggregate amount of non-performing loans and advances to customers, the fair value of collaterals that the Bank held as at 31 December 2011 is TL 20,748 (31 December 2010: TL 19,709).

As at 31 December 2011, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	1,177	-	-	-	1,177
Small business lending	-	-	-	-	-
Total	**1,177**	**-**	**-**	**-**	**1,177**

As at 31 December 2010, the aging analysis of past due but not impaired loans per customer groups is as follows:

	Less than 30 days	31-60 days	61-90 days	More than 91 days	Total
Loans and advances to customers					
Corporate lending	50,629	-	-	-	50,629
Small business lending	-	6,721	-	-	6,721
Total	**50,629**	**6,721**	**-**	**-**	**57,350**

Of the total aggregate amount of gross past due but not yet impaired loans and advances to customers, the fair value of collaterals, capped with the respective outstanding loan balances including those not past due, that the Bank held as at 31 December 2011 is TL 1,163 (31 December 2010: TL 50,292).

Loans and advances to customers amounting to TL 5,630,591 have floating interest rates (31 December 2010: TL 4,262,882) and the remaining TL 664,430 have fixed interest rates (31 December 2010: TL 433,724).

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

10 INVESTMENT SECURITIES

Available for sale investment securities

	31 December 2011	31 December 2010
Government bonds and treasury bills in TL	1,617,661	1,553,671
Government bonds and treasury bills in FC	57,148	47,295
Eurobonds	321,729	312,320
Private sector bonds	274,891	136,539
Equity shares	27,887	37,058
Other	18,922	43,824
Total	**2,318,238**	**2,130,707**

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 843,094 as at the reporting date (31 December 2010: TL 1,026,587).

Held to maturity investment securities

	31 December 2011	31 December 2010
Government bonds and treasury bills in TL	126,955	310,287
Total	**126,955**	**310,287**

The above government bonds and treasury bills include those pledged under securities repurchase agreements with customers amounting to TL 124,046 as at the reporting date (31 December 2010: TL 5,496). As at the reporting date, the Group has no collateral or blocked held to maturity investments (31 December 2010: TL 202,925). Average interest rate of government bonds and treasury bills is 35.10 % (31 December 2010: between 9.23% -21%).

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

10. INVESTMENT SECURITIES (continued)

The blocked securities kept in the Central Bank, the Istanbul Stock Exchange and Takasbank ISE Settlement an Custody Bank Inc. (Clearing House) for the purposes of liquidity requirement and trading guarantee on interbank, bond, repurchase and reverse repurchase markets as at 31 December 2011 and 31 December 2010 are as follows:

	2011 Nominal Value	2011 Carrying Value	2010 Nominal Value	2010 Carrying Value
Government Bonds and Treasury Bills:				
Central Bank- Interbank Market Guarantee	38,982	45,906	39,982	48,520
Central Bank- Open Market Operations	269,858	276,853	78,524	89,075
İstanbul Stock Exchange- Trading Guarantee	-	-	55,000	60,582
Central Bank – Foreign Currency Operations Guarantee	79,054	79,659	55,714	59,367
Clearing House – Blocked Securities	39,889	42,013	9,051	8,999
Other (International Bank) Foreign Currency	70,876	79,530	63,860	75,682
	498,659	**523,961**	**302,131**	**342,225**

The Group's equity shares in available for sale investment securities are as follows:

	Ownership %	31 December 2011	31 December 2010
Investee			
İMKB Takas ve Saklama AŞ	6.80	13,849	14,642
Aksa Enerji Üretim AŞ	<1.00	4,211	7,643
İş Portföy Yönetimi AŞ	9.90	3,467	2,043
European Investment Fund	0.17	2,957	2,957
Ege Tarım Ürünleri Lisanslı Depoculuk AŞ (*)	10.00	800	-
Cam Elyaf Sanayi AŞ	1.18	618	268
TSKB Gayrimenkul Değerleme AŞ (*)	99.99	379	394
Terme Metal San. Ve Tic. AŞ (*)	17.83	291	204
TSKB Gayrimenkul Aracılık Hiz. AŞ (*)	96.00	232	230
Sürdürülebilir Danışmanlık AŞ (*)	96.00	230	-
Vadeli İşlem ve Opsiyon Borsası AŞ	1.00	108	108
TSKB Gayrimenkul Danışmanlık Hiz. AŞ (*)	100.00	4	2
Gelişen İşlemler Piyasası AŞ	<1.00	1	50
Gözlük Sanayi AŞ (*)	21.71	-	407
Emlak Konut Gayrimenkul Yatırım Ortaklığı AŞ	<1.00	-	5,455
Others	<1.00	740	2,655
Total equity shares in available for sale investments		**27,887**	**37,058**

(*) The investments in TSKB Gayrimenkul Değerleme AŞ, TSKB Gayrimenkul Aracılık Hiz. AŞ and TSKB Gayrimenkul Danışmanlık Hiz. AŞ, Terme Metal San. ve Tic. AŞ, Sürdürülebilir Danışmanlık AŞ and Ege Tarım Ürünleri Lisanslı Depoculuk AŞ have not been consolidated since their effect on consolidated income and net assets is not significant.

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

11. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES

As at 31 December 2011 and 2010, the following entities are accounted for under the equity method in the accompanying consolidated financial statements:

	Ownership (%)	Nominal	31 December 2011
Investee			
İş Finansal Kiralama AŞ	28.56	203,115	138,305
İş Factoring Finansman Hizm. AŞ	21.75	3,480	23,420
İş Girişim Serm. Yat. Ort. AŞ	16.67	8,400	28,797
		214,995	**190,522**

	Ownership (%)	Nominal	31 December 2010
Investee			
İş Finansal Kiralama AŞ	28.56	539,318	127,090
İş Factoring Finansman Hizm. AŞ	21.75	3,480	20,829
İş Girişim Serm. Yat. Ort. AŞ	16.67	8,400	24,527
		551,198	**172,446**

The Group's share of profit in its equity-accounted investees for the year 31 December 2011 was TL 20,924 (31 December 2010: TL 20,509). In 2011 the Group has received dividends of TL 13,837 from its investments in equity-accounted investees (31 December 2010: TL 13,419).

The Group's equity-accounted investees are listed on Istanbul Stock Exchange, except for İş Factoring Finansman Hizm. AŞ. Based on their closing prices of TL 1.14 of İş Finansal Kiralama AŞ and TL 1.96 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 126,837 (31 December 2010: TL 1.40 of İş Finansal Kiralama AŞ and TL 2.14 of İş Girişim Serm. Yat. Ort. AŞ, the fair value of the Group's investment is TL 135,929).

Summary financial information for equity-accounted investees is as follows:

31 December 2011	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	1,826,246	483,650	46,030	110,373
İş Factoring Finansman Hizm. AŞ	332,314	52,973	8,236	-
İş Girişim Serm. Yat. Ort. AŞ	176,411	172,441	37,995	16,464
	2,334,971	**709,064**	**92,261**	**126,837**

31 December 2010	Total assets	Equity	Current Period Profit	Fair value
İş Finansal Kiralama AŞ	1,850,388	459,994	63,702	117,953
İş Factoring Finansman Hizm. AŞ	477,482	49,856	5,361	-
İş Girişim Serm. Yat. Ort. AŞ	140,561	137,724	12,255	17,976
	2,468,431	**647,574**	**81,318**	**135,929**

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

12. GOODWILL

Cost	
At 1 January 2010	383
At 31 December 2011	**383**
Impairment	
At 1 January 2010	-
At 31 December 2011	**-**
Carrying Amount	
At 31 December 2011	**383**
At 31 December 2010	**383**

The above goodwill is attributable to Yatırım Finansman Menkul Değerler AŞ.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the investees are determined from cash flows projections. The Bank's management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investees. The growth rates are based on industry growth forecasts.

As at 31 December 2011, the recoverable amount of the investee is higher than the amount of goodwill; therefore, no impairment on goodwill is realized.

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

13. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixture	Total
Acquisition Cost							
Balance at 1 January 2011	**3,079**	**4,547**	**43,968**	**16,039**	**1,414**	**8,866**	**77,913**
Additions	87	15	720	453	-	515	1,790
Disposals	(1,470)	-	(6,576)	(8,361)	(89)	-	(16,496)
Adjustments	-	-	4,277	65	(32)	(149)	4,161
Balance at 31 December 2011	**1,696**	**4,562**	**42,389**	**8,196**	**1,293**	**9,232**	**67,368**
Accumulated Depreciation							
Balance at 1 January 2011	**(711)**	**(4,147)**	**(27,156)**	**(12,820)**	**(647)**	**(7,515)**	**(52,996)**
Charge for the year	-	(143)	(372)	(1,338)	(221)	(404)	(2,478)
Impairment during the year	249	-	825	2,322	-	-	3,396
Disposal	-	-	767	5,960	85	-	6,812
Adjustments	-	-	2,663	(29)	10	(8)	2,636
Balance at 31 December 2011	**(462)**	**(4,290)**	**(23,273)**	**(5,905)**	**(773)**	**(7,927)**	**(42,630)**
Net Book Value at 31 December 2011	**1,234**	**272**	**19,116**	**2,291**	**520**	**1,305**	**24,738**

At 31 December 2011, the net carrying amount of leased property and equipment is TL 408.

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

13. PROPERTY AND EQUIPMENT (continued)

	Land	Leasehold Improvements	Buildings	Equipment	Vehicles	Fixture	Total
Acquisition Cost							
Balance at 1 January 2010	3,560	4,426	48,863	15,592	1,188	8,341	81,970
Additions	-	121	34	492	402	527	1,576
Disposals	(481)	-	(4,929)	(45)	(176)	(2)	(5,633)
Balance at 31 December 2010	**3,079**	**4,547**	**43,968**	**16,039**	**1,414**	**8,866**	**77,913**
Accumulated Depreciation							
Balance at 1 January 2010	(916)	(3,985)	(26,282)	(11,131)	(592)	(7,149)	(50,055)
Charge for the year	-	(162)	(1,185)	(1,725)	(223)	(377)	(3,672)
Impairment during the year	205	-	-	-	-	-	205
Disposal	-	-	311	36	168	11	526
Balance at 31 December 2010	**(711)**	**(4,147)**	**(27,156)**	**(12,820)**	**(647)**	**(7,515)**	**(52,996)**
Net Book Value at 31 December 2010	**2,368**	**400**	**16,812**	**3,219**	**767**	**1,351**	**24,917**

At 31 December 2010, the net carrying amount of leased property and equipment is TL 1,330.

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

14. INVESTMENT PROPERTY

	31 December 2011	31 December 2010
Fair value of investment properties	226,805	213,281
	226,805	**213,281**

The Group's investment properties are held under freehold interests.

The Group's investment properties belong to the Group's subsidiary operating in the real-estate investment trust sector. The fair values of the investment properties are determined in reports issued on 12 December 2011, 6 December 2011 and 13 December 2011 by companies listed on CMB's List of Real Estate Appraisal Companies as TL 15,600, TL 7,360 and TL 203,845, respectively. TL 9,218 of fair value difference is recognised under other operating income in the accompanying consolidated financial statements (31 December 2010: TL 213,281 net book value, TL 2,312 fair value difference).

The total external rent income earned by the Group from its investment properties is TL 8,931 in the current period (31 December 2010: TL 9,734). The management states that there is no material operating expenses arising on its investment properties for the year.

The movement of investment properties as at 31 December 2011 and 31 December 2010 are as follows:

Current Period	**Closing Balance of Prior Period**	**Additions**	**Disposals**	**Change in Fair Value**	**Closing Balance of Current Period**
Tahir Han	6,265	-		1,095	7,360
Pendorya Mall	195,290	1,027	(3)	7,531	203,845
Adana Hotel Project (*)	11,726	3,568	(286)	592	15,600
Total	**213,281**	**4,595**	**(289)**	**9,218**	**226,805**

Prior Period	**Closing Balance of Prior Period**	**Additions**	**Disposals**	**Change in Fair Value**	**Closing Balance of Current Period**
Tahir Han	5,885	-	-	380	6,265
Pendorya Mall	187,770	5,806	(102)	1,816	195,290
Adana Land Project Development	11,636	839	(865)	116	11,726
Total	**205,291**	**6,645**	**(967)**	**2,312**	**213,281**

(*) At 27 September 2011, the licence of construction work for a 5-star hotel project of the Company that has been built up in Adana Province, Seyhan Town, Çınarlı District, Map 1653 and Plot 143, has been completed and relevant licence is obtained from Municipality of Seyhan Town.

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

15. INTANGIBLE ASSETS

The intangible fixed assets include software that are amortised principally on straight line basis which amortise the assets over their expected useful lives.

	31 December 2011	31 December 2010
Acquisition cost		
Balance at 1 January	3,627	3,350
Additions	403	277
Balance at 31 December	**4,030**	**3,627**
Accumulated amortisation		
Balance at 1 January	(2,770)	(2,443)
Charge for the year	(390)	(327)
Balance at 31 December	**(3,160)**	**(2,770)**
Net Book Value, as at 31 December	**870**	**857**

16. OTHER ASSETS

	31 December 2011	31 December 2010
Receivables from brokerage customers	45,728	8,248
Cash guarantees given	34,993	5,518
VAT carried forward	13,096	14,597
Prepaid expenses	11,070	4,808
Receivables from prepaid treasury guaranteed commissions	5,593	3,041
Trade receivables	1,888	-
Prepaid taxes	1,668	401
Receivables from personnel	182	301
Advances given	86	143
Other	13,266	9,145
Total	**127,570**	**46,202**

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

The securities sold under repurchase agreements and corresponding obligations are as follows:

	2011 Carrying Value of Underlying Securities	2011 Carrying Value of Corresponding Liability	2011 Repurchase Value
Available for sale investment securities	843,094	818,208	819,646
Held to maturity investment securities	124,046	129,546	129,561
	967,140	**947,754**	**949,207**

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

17. OBLIGATIONS UNDER REPURCHASE AGREEMENTS (continued)

	2010 Carrying Value of Underlying Securities	2010 Carrying Value of Corresponding Liability	2010 Repurchase Value
Financial assets at fair value through profit or loss	441	441	441
Financial assets available for sale	1,026,587	964,590	964,075
Financial assets held to maturity	202,925	221,033	223,581
	1,229,953	**1,186,064**	**1,188,097**

The repurchase agreements have maturity periods between three days to one year. The Group has applied interest rates of 0.5%-2.3% for foreign currency, 5.75%-11.42% for Turkish Lira agreements (31 December 2010: 0.35%-1.5% for foreign currency, 5.5%-17.6% for Turkish Lira). Included in the carrying value of the obligations under repurchase agreements, the interest accrued amounts to TL 775 (2010: TL 3,934).

18. FUNDS BORROWED

	31 December 2011	31 December 2010
Short-term	557,548	449,148
Medium and long-term	6,227,987	4,603,702
Total	**6,785,535**	**5,052,850**
Short-term portion of medium and long-term funds borrowed	**498,038**	**342,274**

	31 December 2011	31 December 2010
Foreign currencies	6,761,772	4,993,833
Turkish Lira	23,763	59,017
Total	**6,785,535**	**5,052,850**

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

18. FUNDS BORROWED (continued)

	31 December 2011	31 December 2010
Foreign Currency Borrowings		
International Bank for Reconstruction and Development (IBRD)		
-Export Finance Intermediation Loan (EFIL) II	487,505	448,757
-Export Finance Intermediation Loan (EFIL) III	549,896	480,799
-Export Finance Intermediation Loan (EFIL) IV	645,144	442,044
-IBRD-Renewable Energy Loan (REL)	1,016,793	493,432
-IBRD-Small Medium Enterprises (SME)	223,655	184,707
	2,922,993	**2,049,739**
European Investment Bank (EIB)	1,983,143	1,656,794
Council of European Development Bank (CEB)	592,719	424,496
Kreditanstalt Für Wiederaufbau (KFW)	357,949	213,705
Association of French Development (AFD)	314,337	250,258
Syndicated Loan	241,376	170,632
Barclays Bank	65,825	55,211
European Bank for Reconstruction and Development (EBRD)	48,890	-
Instituto de Credito Official	1,701	2,717
Domestic bank borrowings	232,839	5,992
Foreign bank borrowings	-	149,866
Cash borrowings through promissory notes	-	14,423
	3,838,779	**2,944,094**
Total foreign currency borrowings	**6,761,772**	**4,993,833**
Turkish Lira Borrowings		
Domestic bank borrowings	10,006	59,017
Garanti Bank International NV	13,757	-
Total Turkish Lira borrowings	**23,763**	**59,017**
Total	**6,785,535**	**5,052,850**

18. FUNDS BORROWED (continued)

IBRD Funds

IBRD EFIL II:

-Variable interest rate 0.66% for US Dollar (31 December 2010: 1.23% for US Dollar), repayable in scheduled instalments up to 15 January 2020.

IBRD EFIL III:

-Variable interest rate 0.66% for US Dollar (31 December 2010: 1.23% for US Dollar) and variable interest rate 2.06% for Euro (31 December 2010 1.58% for Euro), repayable in scheduled instalments up to 15 January 2021.

IBRD EFIL IV:

-Variable interest rate 0.46-1.26% for US Dollar (31 December 2010: 0.78%) and variable interest rate 1.86-2.16% for Euro (31 December 2010: 1.13%), repayable in scheduled instalments up to 15 December 2038.

IBRD REL:

-Variable interest rate 0.77% for US Dollar (31 December 2010: 0.99% for US Dollar), repayable in scheduled instalments up to 15 September 2020.

IBRD REL 2:

-Variable interest rate 0.61% for US Dollar (31 December 2010: 0.57%) and variable interest rate 1.78%, for Euro (31 December 2010: 1.19) repayable in scheduled instalments up to 15 March 2039.

IBRD CTF REL 2:

-Variable interest rate 0.75% for US Dollar (31 December 2010: 0.75%), repayable in scheduled instalments up to 15 March 2029.

IBRD SME:

-Variable interest rate 0.57% for US Dollar (31 December 2010: 0.54% for US Dollar), and variable interest rate 1.76% for Euro (31 December 2010: 1.18% for Euro), repayable in scheduled instalments up to 15 March 2021.

EIB Funds

EIB APEX GLOBAL LOAN:

-Variable interest rates of 1.68-1.83% for Euro (31 December 2010: 1.28-1.43% for Euro), repayable in scheduled instalments up to 15 May 2016.

EIB (Pollution Fund):

-Interest rates of 1.77-2.23% for Euro (31 December 2010: 1.77-2.44% for Euro), repayable in scheduled instalments up to 15 April 2013.

18. FUNDS BORROWED (continued)

EIB Funds (continued)

EIB REL 2:

-Variable interest rates of 2.09% for Euro (31 December 2010: 1.51) and variable interest rate 1.04%-1.06% for US Dollar (31 December 2010: 1.13), repayable in scheduled instalments up to 14 April 2026.

EIB SME 1.2:

-Variable interest rate 0.95% for US Dollar (31 December 2010: %0.70 for US Dollar) repayable in scheduled instalments up to 15 June 2012.

EIB SME DEVELOPMENT GLOBAL LOAN:

-Variable interest rates of 1.80-1.81% for Euro (31 December 2010: 1.21-1.22% for Euro) and variable interest rate 0.62-0.69% for US Dollar (31 December 2010: 0.59-0.66% for US Dollar), repayable in scheduled instalments up to 15 September 2019.

EIB INDUSTRIAL SECTOR GLOBAL LOAN II

-Variable interest rates of 1.73% for Euro (31 December 2010: 1.33% for Euro) and variable interest rate 0.85% for US Dollar (31 December 2010: 0.60% for US Dollar), repayable in scheduled instalments up to 15 June 2013.

EIB INDUSTRIAL SECTOR GLOBAL LOAN III

-Variable interest rates of 1.83% for Euro (31 December 2010: 1.43% for Euro) and variable interest rate 0.95% for US Dollar (31 December 2010: 0.70% for US Dollar), repayable in scheduled instalments up to 15 March 2015.

EIB INDUSTRIAL SECTOR GLOBAL LOAN IV

-Variable interest rates of 1.68-1.83% for Euro (31 December 2010: 1.28-1.43% for Euro) and variable interest rate 0.80-0.95% for US Dollar (31 December 2010: 0.70% for US Dollar), repayable in scheduled instalments up to 15 December 2015.

EIB INDUSTRIAL SECTOR GLOBAL LOAN V

-Variable interest rates of 1.68% for Euro (31 December 2010: 1.28% for Euro) and variable interest rate 0.80% for US Dollar (31 December 2010: 0.55% for US Dollar), repayable in scheduled instalments up to 15 September 2017.

EIB INDUSTRIAL HEAT AND POWER AUTOPRODUCTION GLOBAL LOAN PROJECT

-Variable interest rates of 1.58% for Euro and 0.70% for US Dollar (31 December 2010: 1.18% for Euro; 0.45% for US Dollar), repayable in scheduled instalments up to 15 September 2017.

EIB REL

-Variable Interest rates of 1.80-2.07 % for Euro (31 December 2010: 1.39-1.65% for Euro), and variable interest rate 0.84-1.20% for US Dollar (31 December 2010: 0.63-0.99% for US Dollar), repayable in scheduled instalments up to 15 November 2024.

EIB SME DEVELOPMENT LOAN II

-Variable interest rates of 1.94-2.12% for Euro; 0.98-1.17% for US Dollar (31 December 2010: 1.34-1.56%), repayable in scheduled instalments up to 11 May 2023.

18. FUNDS BORROWED (continued)

CEB

-Variable interest rates of 2.03-2.50% for Euro and variable interest rates of 0.90-1.61% for US Dollar (31 December 2010: 1. 46-1.96% for Euro, 0.77-1.38 for US Dollar), repayable in scheduled instalments up to 15 November 2021.

KFW

KFW:

-Variable interest rates of 1.70% for Euro (31 December 2010: 1.26% for Euro), repayable in scheduled instalments up to 31 May 2018.

KFW SME:

-Interest rate 2.00% for Euro (31 December 2010: 2.00% for Euro), repayable in scheduled instalments up to 30 December 2032.

KFW (Pollution Fund):

-Interest rate 2.00% for Euro (31 December 2010: 2.00% for Euro), repayable in instalments up to 30 December 2032.

KFW (1st Trance):

-Variable interest rates of 0.72% for US Dollar (31 December 2010: 0.66% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

KFW (2nd Trance):

-Variable interest rates of 1.06% for US Dollar (31 December 2010: 1.00% for US Dollar), repayable in scheduled instalments up to 30 June 2020.

KFW (3rd Trance):

- Interest rates of 2.89% for Euro (31 December 2010: N/A), repayable in scheduled instalments up to 30 December 2022.

KFW (Municipality Infrastructure):

- Interest rates of 2.75% for Euro (31 December 2010: N/A), repayable in scheduled instalments up to 30 December 2030.

AFD

AFD 1:

-Variable interest rate of 2.22% for Euro (31 December 2010: 1.55% for Euro), repayable in scheduled instalments up to 31 January 2017.

AFD 2:

-Variable interest rate of 1.91% for Euro, (31 December 2010: 1.46%) repayable in scheduled instalments up to 30 November 2018.

AFD 3:

-Variable interest rate of 1.17% for Euro, (31 December 2010: 0.50%) repayable in scheduled instalments up to 31 July 2021.

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

18. FUNDS BORROWED (continued)

SYNDICATED LOAN

-The Bank had attended the two different syndicated agreements that were named as Syndicated IX and Syndicated X through 31 December 2011. Variable interest rate of 1.09% for US Dollar Syndicated Loan IX and variable interest rate of 2.47% for Euro Syndicated Loan X; both repayable on 25 June 2012. The Bank had attended the two different syndicated agreements that were named as Syndicated VII and Syndicated VIII through 31 December 2010. Variable interest rate 1.46% for US Dollar Syndicated Loan VII and variable interest rate of 2.25% for Euro Syndicated Loan VIII; both repayable on 21 June 2011.

BARCLAYS BANK

-Variable interest rate of 1.00% for US Dollar, (31 December 2010: 1.71%) for US Dollar repayable in scheduled instalments up to 13 January 2012 (31 December 2010: 14 January 2011).

EBRD

-Variable interest rate of 3.16% for Euro, (31 December 2010: N/A) repayable in scheduled instalments up to 18 July 2017.

INSTITUTO DE CREDITO OFFICIAL

-Interest rate of 4.00% for US Dollar (31 December 2010: 4.00% for US Dollar), repayable in scheduled instalments up to 17 April 2013.

19. DEBT SECURITIES ISSUED

	31 December 2011	31 December 2010
Debt securities issued	-	194,282
Total	**-**	**194,282**

Debt securities have a maturity varied from February 2011 to August 2011 with between 8.20% and 8.80% fixed interest rates, respectively. Securities are issued in accordance with the regulation of Capital Markets Board of Turkey and TL 200,000 nominal bond was traded at Bond and Bill Markets of Istanbul Stock Exchange.

20. OTHER LIABILITIES

	31 December 2011	31 December 2010
Unearned revenue	63,180	46,097
Payables to clearing accounts	54,162	11,982
Cash guarantees	10,419	5,413
Payable to personnel	5,200	31
Expense accruals	3,637	3,849
Deposits and advances taken for imports	1,463	-
Payment orders	-	8,944
Payables to funds	-	4,313
Other	10,600	6,885
Total	**148,661**	**87,514**

21. TAXATION

Corporate Tax

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2011 (31 December 2010: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2011 is 20% (31 December 2010: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April 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 and funds surcharge on any dividends distributed, except for companies receiving dividends who are Turkish residents and Turkish branches of foreign companies. Income withholding tax applied in between 24 April 2003 – 22 July 2006 is 10% and commencing from 23 July 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no.15 and 30 of the new Corporate Tax Law no.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The effective tax rate has been taken as 20% in 2011 (31 December 2010: 20%).

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

21. TAXATION (continued)

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

Deferred Tax

Taxes on income for the year also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2010: 20%) is used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

a) Statement of financial position:

	31 December 2011	31 December 2010
Corporate tax provision	49,201	51,821
Corporate tax paid in advance	(35,618)	(39,233)
Corporate tax liability	**13,583**	**12,588**

b) Income statement:

	31 December 2011	31 December 2010
Corporate tax expense	51,040	51,821
Deferred tax expense	19,840	6,636
	70,880	**58,457**

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

21. TAXATION (continued)

In addition, TL 4,211 deferred tax, which is calculated over the fair value differences on financial assets available for sale, is offset against the "unrealized gains / losses on available for sale investment securities" item under equity (31 December 2010: TL 14,758).

The deferred taxes on major temporary differences as at the reporting dates are as follows:

	31 December 2011	31 December 2010
Loan commissions	12,090	9,081
Impairment losses on loans	2,608	10,578
Reserve for employee severance indemnity and unused vacation provision	1,172	1,058
Valuation of marketable securities	1,131	5,011
Useful life differences on property and equipment	-	1,044
Others	1,826	335
Total deferred tax asset	**18,827**	**27,107**
Valuation of marketable securities	(4,902)	(6,098)
Borrowing commissions	(1,832)	(887)
Accruals on derivative financial instruments	(1,076)	(203)
Useful life differences on property and equipment	(735)	-
Others	-	(347)
Total deferred tax liability	**(8,545)**	**(7,535)**

Reflected as:

	31 December 2011	31 December 2010
Deferred tax assets	18,827	27,107
Deferred tax liabilities	(8,545)	(7,535)
Total deferred tax assets, net	**10,282**	**19,572**

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

	31 December 2011	31 December 2010
Reconciliation of Taxation		
Income / (loss) before taxation	360,508	297,757
Tax at the statutory income tax rate of 20%	(72,102)	(59,551)
Tax effect of income that is deductible in determining taxable income	19,892	20,559
Tax effect of undeductable expenses	(23,360)	(23,667)
Tax effect of dividend income	4,690	4,202
Income tax expense	**(70,880)**	**(58,457)**

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

21. TAXATION (continued)

Movements in temporary differences for the years ended 31 December 2011 and 2010 are as follows:

	Balance at 1 January	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
2011				
Loan commissions	9,081	3,009	-	12,090
Impairment losses on loans	10,578	(7,970)	-	2,608
Reserve for employee severance indemnity and unused vacation provision	1,058	114	-	1,172
Valuation of marketable securities	(1,087)	(13,234)	10,550	(3,771)
Useful life differences on property and equipment	1,044	(1,779)	-	(735)
Borrowing commissions	(887)	(945)	-	(1,832)
Accruals on derivative financial instruments	(203)	(873)	-	(1,076)
Other	(12)	1,838	-	1,826
Net deferred tax asset / (liability)	**19,572**	**(19,840)**	**10,550**	**10,282**

	Balance at 1 January	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
2010				
Loan commissions	6,141	2,940	-	9,081
Impairment losses on loans	12,167	(1,589)	-	10,578
Reserve for employee severance indemnity and unused vacation provision	887	171	-	1,058
Valuation of marketable securities	(1,097)	709	(669)	(1,087)
Useful life differences on property and equipment	1,056	(12)	-	1,044
Borrowing commissions	(805)	(82)	-	(887)
Accruals on derivative financial instruments	(257)	54	-	(203)
Finance lease receivables	4,262	(4,262)	-	-
Other	4,553	(4,565)	-	(12)
Net deferred tax asset / (liability)	**26,907**	**(6,636)**	**(699)**	**19,572**

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

22. EMPLOYEE BENEFITS

	2011	2010
Movement of reserve for employee severance indemnity		
Balance at 1 January	4,146	3,498
Provision for the year	1,260	1,070
Indemnities paid	(654)	(422)
Balance at 31 December	**4,752**	**4,146**

	2011	2010
Provision for unused vacations	**1,107**	**1,146**
Total	**5,859**	**5,292**

a) Pension scheme

The Group has established two pension schemes, which are funded defined benefit plans covering substantially all employees. The assets of the plan are held independently of the Group's assets in the Pension Funds. These schemes are valued by independent actuaries every year. As per the latest actuarial valuation carried out as at 31 December 2011, the Bank has no obligation to book any provision for the Pension Funds. For additional information, please see note 3.22 Employee Benefits.

b) Reserve for employee severance indemnity

Under the Turkish Labour Law, the Group entities are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to the length of service prior to retirement.

Such payments are calculated on the basis of 30 days' pay maximum full TL 2,732 as at 31 December 2011 (31 December 2010: full TL 2,517) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

The principal assumptions used for the purpose of the calculations are as follows:

	2011	2010
Interest rate	8.00%	10.00%
Expected rate of increase in salaries and eligible ceiling	9.36%	5.10%
Discount rate	1.26%	4.66%

23. SUBORDINATED LOAN

The Bank has used a subordinated loan amounting to US Dollar 50,000,000. As at 31 December 2011, carrying value of subordinated loan is TL 95,000 (31 December 2010: TL 77,947).

The date of the loan contract is 21 September 2004 and the first usage date was 5 November 2004. The interest rate of the subordinated loan is Libor + 3.25%; which corresponds to 3.84% as at the reporting date. Total repayment of principal of the subordinated loan will be on 15 October 2016 as a whole.

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

24. CAPITAL AND RESERVES

Share Capital

As at 31 December 2011, the authorized and issued capital consists of 800,000,000 shares of 1 Turkish Lira each as reflected in the statutory consolidated financial statements. Ordinary shares carry voting rights in proportion to their nominal value.

31 December 2011	%	Authorized Capital	Paid-In Capital
Shareholders			
T. İş Bankası AŞ	50.00	400,001	400,001
T. Vakıflar Bankası T.A.O.	8.38	67,020	67,020
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.62	332,969	332,969
Physically Under Custody (Other Institutions and Individuals)	-	10	10
	100.00	**800,000**	**800,000**
Components of Capital:			
Nominal capital		800,000	800,000
Effect of inflation		13,563	13,563
		813,563	**813,563**

31 December 2010	%	Authorized Capital	Paid-In Capital
Shareholders			
T. İş Bankası AŞ	50.06	350,451	350,451
T. Vakıflar Bankası T.A.O.	8.38	58,642	58,642
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	41.56	290,894	290,894
Physically Under Custody (Other Institutions and Individuals)	-	13	13
	100.00	**700,000**	**700,000**
Components of Capital:			
Nominal capital		700,000	700,000
Effect of inflation		13,563	13,563
		713,563	**713,563**

Number of listed shares as of 31 December 2011 and 2010 are 432,582,000 and 378,493,000 respectively.

In the current period, the Bank's share capital has been increased by TL 100,000. In the meeting of the General Assembly held on 25 March 2011; it has been resolved that, paid-in capital of the Bank would be increased from TL 700,000 to TL 800,000 by TL 100,000. In respect of the resolution of the General Assembly, TL 100,000 of this increase was incorporated from the profit of the year 2010. The increase in paid-in capital was approved by the BRSA on 12 May 2011 and has been published in the Turkish Trade Registry Gazette No: 7824 on 27 May 2011.

In the prior period, the Bank's share capital has been increased by TL 100,000. In the meeting of the General Assembly held on 25 March 2010; it has been resolved that, paid-in capital of the Bank would be increased from TL 600,000 to TL 700,000 by TL 100,000. In respect of the resolution of the General Assembly, TL 85,000 of this increase was incorporated from the profit of the year 2009 and TL 15,000 from extraordinary reserves. The increase in paid-in capital was approved by the BRSA on 27 April 2010 and has been published in the Turkish Trade Registry Gazette No: 7576 on 2 June 2010.

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

24. CAPITAL AND RESERVES (continued)

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.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

Dividends

At the Ordinary General Assembly of the Parent Bank held on 25 March 2011, it was decided to distribute a dividend of TL 42,000 to shareholders and TL 5,199 to personnel, members of Board of Directors and to allocate TL 64,431 to legal reserves from retained earnings.

Non-controlling interests

As at the reporting date the non-controlling interests are as follows:

	31 December 2011	31 December 2010
Capital	78,784	78,448
Share premium	228	228
Fair value reserve	-	2
Retained earnings	21,258	17,459
Current period net income	(2,143)	5,115
	98,127	**101,252**

25. OTHER OPERATING INCOME

	1 January-31 December 2011	1 January-31 December 2010
Provisions released	41,064	23,688
Gain on sale of assets	11,467	776
Increase in value of investment properties	9,218	2,312
Other	19,394	10,433
	81,143	**37,209**

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

26 DIVIDEND INCOME

	1 January-31 December 2011	1 January-31 December 2010
Available-for-Sale sale Securitiessecurities	2,035	916
Trading Securitiessecurities	894	307
Other	2,293	1,280
	5,222	**2,503**

27 OTHER OPERATING EXPENSES

	1 January-31 December 2011	1 January-31 December 2010
Personnel expenses	56,458	48,850
Other administrative expenses	24,480	20,663
Marketing expenses	3,161	2,438
Depreciation and amortisation	2,867	3,999
Taxes and dues other than on income	435	25
Other	5,339	17,297
	92,740	**93,272**

28 SEGMENT REPORTING

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

For management purposes, the Group is currently organized into two operating divisions – "banking" and "stock brokerage and other". These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

Banking: investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

Stock brokerage and other: intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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

28 SEGMENTS REPORTING (Continued)

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2011)	Banking	Stock brokerage and other	Combined	Eliminations	Total
Interest income	513,097	28,759	541,856	(7,155)	534,701
Interest expense	(148,773)	(32,964)	(181,737)	7,155	(174,582)
Net interest income	**364,324**	**(4,205)**	**360,119**	**-**	**360,119**
Net fee and commission income	9,898	18,354	28,252	-	28,252
Net securities trading income / (loss)	(2,491)	(2,539)	(5,030)	-	(5,030)
Net derivative trading income / (loss)	(26,882)	(27,548)	(54,430)	-	(54,430)
Net foreign currency gains / (losses)	18,422	21,016	39,438	-	39,438
Impairment losses on loans and advances to customers, net	(19,659)	(2,731)	(22,390)	-	(22,390)
Net operating income after impairment losses	**343,612**	**2,347**	**345,959**	**-**	**345,959**
Other operating income	54,903	31,422	86,325	(5,182)	81,143
Other operating expenses	(64,444)	(34,098)	(98,542)	5,802	(92,740)
Dividend income	25,829	1,949	27,778	(22,556)	5,222
Share of profit of equity-accounted investees	20,924	-	20,924	-	20,924
Profit before income tax	**380,824**	**1,620**	**382,444**	**(21,936)**	**360,508**

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

28 SEGMENT REPORTING (continued)

CONSOLIDATED INCOME STATEMENT (1 January – 31 December 2010)	**Banking**	**Stock brokerage and other**	**Combined**	**Eliminations**	**Total**
Interest income	429,496	35,862	465,358	(9,853)	455,505
Interest expense	(135,232)	(29,208)	(164,440)	9,853	(154,587)
Net interest income	**294,264**	**6,654**	**300,918**	**-**	**300,918**
Net fee and commission income	13,521	22,027	35,548	-	35,548
Net securities trading income / (loss)	(3,325)	6,636	3,311	-	3,311
Net derivative trading income / (loss)	1,943	(17)	1,926	-	1,926
Net foreign currency gains / (losses)	(2,415)	2,854	439	-	439
Impairment losses on loans and advances to customers, net	(10,358)	(976)	(11,334)	-	(11,334)
Net operating income after impairment	**293,630**	**37,178**	**330,808**	**-**	**330,808**
Other operating income	25,743	21,311	47,054	(9,845)	37,209
Other operating expenses	(62,387)	(35,973)	(98,360)	5,088	(93,272)
Dividend income	22,683	834	23,517	(21,014)	2,503
Share of profit of equity-accounted investees	20,509	-	20,509	-	20,509
Profit before income tax	**300,178**	**23,350**	**323,528**	**(25,771)**	**297,757**

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

28 SEGMENT REPORTING (continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
At 31 December 2011					
Total assets	**9,495,992**	**930,709**	**10,426,701**	**(312,332)**	**10,114,369**
Total liabilities	**7,986,011**	**607,845**	**8,593,856**	**(115,382)**	**8,478,474**
Equity before net profit & non-controlling interests	1,199,979	322,142	1,522,121	(276,124)	1,245,997
Net profit attributable to equity holders of the Bank	310,002	722	310,724	(18,953)	291,771
Non-controlling interests	-	-	-	98,127	98,127
Total equity	**1,509,981**	**322,864**	**1,832,845**	**(196,950)**	**1,635,895**
Total liabilities and equity	**9,495,992**	**930,709**	**10,426,701**	**(312,332)**	**10,114,369**
At 31 December 2010					
Total assets	**7,883,013**	**811,513**	**8,694,526**	**(367,117)**	**8,327,409**
Total liabilities	**6,561,421**	**488,328**	**7,049,749**	**(170,605)**	**6,879,144**
Equity before net profit & non-controlling interests	1,097,856	302,359	1,400,215	(287,387)	1,112,828
Net profit attributable to equity holders of the Bank	223,736	20,826	244,562	(10,377)	234,185
Non-controlling interests	-	-	-	101,252	101,252
Total equity	**1,321,592**	**323,185**	**1,644,777**	**(196,512)**	**1,448,265**
Total liabilities and equity	**7,883,013**	**811,513**	**8,694,526**	**(367,117)**	**8,327,409**

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

29. RELATED PARTIES

For the purposes of the accompanying consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying consolidated financial statements include the following balances due from or due to related parties:

	31 December 2011	31 December 2010
Balances with related parties		
Loans and advances to customers	184,614	198,369
Non-cash loans	117,903	117,758
Loans and advances to banks	990	4,800
Available for sale investment securities	6,003	6,934
Other liabilities	620	3,070

	1 January-31 December 2011	1 January-31 December 2010
Transactions with related parties		
Interest income	5,573	4,923
Interest expense	(2)	(443)
Dividend income	5,222	2,503
Income from associates	20,924	20,509
Foreign exchange gain (loss), net	10,935	(265)
Net fee and commission income / (expense), net	(548)	(477)
Other income	172	183

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 8,407 (31 December 2010: TL 7,803).

30. COMMITMENTS AND CONTINGENCIES

	31 December 2011	31 December 2010
Letters of guarantee	689,477	801,325
Revocable and irrevocable commitments	4,499,686	1,569,098
Letters of credit	555,929	259,695
Swap and forward agreements	3,499,266	767,558
Option agreements	1,467,754	796,314
Futures agreements	-	1,573,170
Other commitments	22,179	149,878
	10,734,291	**5,917,038**

30. COMMITMENTS AND CONTINGENCIES (continued)

Fiduciary Activities

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

As at 31 December 2011, the Group manages 11 mutual funds (2010: 10) which were established under the regulations of the CMB. In accordance with these regulations and the charters of the funds, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 3,390,875 as at 31 December 2011 (31 December 2010: 3,099,283). As at 31 December 2011, securities at custody with market value amounted to TL 1,901,254 (31 December 2010: TL 2,119,178).

Securites Blocked and Letters of Guarantee Given to Istanbul Stock Exchange (ISE) as Collateral for Trading on Markets

As at 31 December 2011, according to the general requirements of the ISE, letters of guarantee amounting to TL 1,038 (31 December 2010: TL 4,353) had been obtained from various local banks and were provided to ISE for bond and stock market transactions. Also, as at 31 December 2011 there is no letters of guarantee were given to the Capital Markets Board (31 December 2010: TL 1,236).

The Group's trading securities given as collateral or blocked amounted to TL 6,905 at the reporting date (31 December 2010: TL 4,909).

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There is a lawsuit for the cancellation of the licence of construction dated 16 July 2008 and numbered 1120 given for the Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 and related zoning plan dated 6 November 2007 and scaled 1/1000 and for motion for stay of execution against Pendik Mayoralty. TSKB GYO is also involved in the instant case and Istanbul 9th Administrative Court ordered the cancellation of the licence and zoning plan with a right of appeal. As a result of the appeal, the Council of State also approved the resolution of the Court on 1 December 2011.

In addition, seeking the cancellation of the 1/1000 scaled zoning plan dated 6 November 2007 by the decision of 9th Administrative Court, the plaintiff also filed a lawsuit against Pendik Municipality on the Istanbul 3rd Administrative Court ("the Court") in order to demand grant a stay of execution suspending the cancellation of the construction and occupancy permits dated 4 December 2009 and numbered 101 and dated 14 December 2009 and numbered 104 given for Pendorya Mall. The Court issued a stay of execution on 31 December 2010 regarding related occupancy permits and the Court decided on 22 September 2011 to set aside the decision of the case on the basis of that cancellation of the construction licence dated 16 July 2008 and numbered 1120 given to TSKB GYO for Pendorya Mall with resolution dated 4 November 2010 is due to the cancellation of 1/1000 scaled Zoning Plan. TSKB GYO, involved in the position to demand the motion for stay of execution of the mentioned cancellation resolution of the Court and has presented the petition of appeal to the Council of State on 4 November 2011.

30. COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

Development functions and construction conditions of the real estates (land use decisions) are permitted by the Zoning Plan. New 1/5000 scaled, 25 December 2010 dated Zoning Plan for the area where Pendorya Shopping Mall is located, has become effective.

According to the New 1/5000 scaled Zoning Plan, the related real estate's functions has been preserved.

In accordance with the new zoning plan, 1/1000 scaled zoning plan has been prepared by Pendik Municipality and approved by the Pendik Municipality Council at 7 October 2011. Subsequent to the approval of 1/1000 scaled zoning plan by Istanbul Metropolitan Municipality, the Pendorya Mall's both construction licence and occupancy permit renewal application will be made.

Pendorya Mall was built in accordance with the 1/1000 scaled Zoning Plan that was in force at the date of construction and both construction licence and occupancy permits had been obtained in regular form at same date. Land amendment transactions are also completed accordingly. Land Registry records were still registered as a shopping center. Therefore, it is not expected that there will be a problem relating with the existing construction licence, new licence demand or operations of Pendorya Mall.

Other

The Group's 1 head office and 13 branches, including branches of subsidiaries, are subject to operational leasing. The lease periods vary between 1 and 5 years and there are no restrictions placed upon the lessee by entering into these leases (31 December 2010: 1 head office and 13 branches).

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

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2011 Assets	2011 Liabilities	2010 Assets	2010 Liabilities
Currency swaps	5,362	(7,959)	1,861	(2,251)
Options	17,940	(17,940)	4,892	(4,899)
Foreign currency forward contracts	13,965	(12,570)	373	(200)
Interest rate swaps	8,086	(10,274)	3,659	(2,571)
Other	-	-	476	(433)
	45,353	**(48,743)**	**11,261**	**(10,354)**

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, USD and Euro.

At the reporting date, the total amounts of outstanding derivatives to which the Group is committed are as follows:

	31 December 2011	31 December 2010
Forward foreign exchange contracts – buy	618,562	18,170
Forward foreign exchange contracts – sell	616,285	17,846
Futures – sell	-	1,573,170
Currency swaps – buy	443,978	127,479
Currency swaps – sell	443,525	122,465
Interest rate swaps – buy	688,458	240,799
Interest rate swaps – sell	688,458	240,799
Currency option – buy	708,923	372,061
Currency option – sell	708,923	367,589
Interest option – buy	24,954	28,332
Interest option – sell	24,954	28,332
Other	1,939	116,980

32. DIVIDENDS

In March 2011, TL 48,181 dividends were paid to shareholders. In March 2010, the dividends paid were TL 35,410.

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

33. FAIR VALUES OF FINANCIAL INSTRUMENTS

As at 31 December 2011 and 31 December 2010, fair values of financial assets and liabilities are as follows:

	31 December 2011		31 December 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interbank money market placements	102,437	102,437	1,228	1,228
Funds lent under repurchase agreements	6,928	6,928	6,602	6,602
Trading assets	104,972	104,972	108,857	108,857
Derivative assets	45,353	45,353	11,261	11,261
Loans and advances to customers	6,281,981	6,329,031	4,660,365	4,669,798
Available for sale investment securities	2,318,238	2,318,238	2,130,707	2,130,707
Held to maturity investment securities	126,955	132,610	310,287	336,412
Other assets	127,570	127,570	46,177	46,177
Obligations under repurchase agreements	947,754	947,754	1,186,064	1,186,064
Derivative liabilities	48,743	48,743	10,354	10,354
Funds borrowed and subordinated loans	6,785,535	6,785,535	5,130,797	5,130,797
Debt securities issued	-	-	194,282	190,232
Payables to stock exchange money market	420,609	420,609	247,669	247,669
Current account of loan customers	7,894	7,894	-	-
Other liabilities	148,661	148,661	87,514	87,514

Loans and Receivables

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

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Funds borrowed

Management has estimated that the fair value of certain funds borrowed recorded at amortised cost that are of a contractual nature, are not materially different than their earning values. Management believes that the carrying amount of these particular financial liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

33. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

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

The fair values of financial assets and financial liabilities are determined and grouped 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.

The consolidated financial statements include holdings in unlisted shares which are measured at their historical costs as fair values could not be determined reliably.

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

33. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Based on the fair value hierarchy, the Group's financial assets and liabilities are categorized as follow:

31 December 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Trading assets	104,972	104,972	-	-
Government bonds and Treasury bills	*84,339*	*84,339*	-	-
Equity shares	*15,239*	*15,239*	-	-
Mutual funds	*5,394*	*5,394*	-	-
Derivative assets	45,353	-	45,353	-
Available for sale investment securities	2,318,238	2,052,197	21,943	244,098
Government bonds and Treasury bills	*1,674,809*	*1,674,809*	-	-
Eurobonds	*321,729*	*321,729*	-	-
Equity shares	*27,887*	*4,760*	-	*23,127*
Other	*293,813*	*50,899*	*21,943*	*220,971*
Financial Liabilities				
Derivative liabilities	48,743	-	48,743	-

31 December 2010	**Total**	**Level 1**	**Level 2**	**Level 3**
Financial Assets				
Trading assets	108,857	108,857	-	-
Government bonds and treasury bills	*83,019*	*83,019*	-	-
Equity shares	*24,008*	*24,008*	-	-
Mutual funds	*1,830*	*1,830*	-	-
Derivative assets	11,261	-	11,261	-
Available for sale investment securities	2,130,707	1,966,300	-	164,407
Government bonds and Treasury bills	*1,600,966*	*1,600,966*	-	-
Eurobonds	*312,320*	*312,320*	-	-
Equity shares	*37,058*	*13,098*	-	*23,960*
Other	*180,363*	*39,916*	-	*140,447*
Financial Liabilities				
Derivative liabilities	10,354	-	10,354	-

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

34. EARNINGS PER SHARE

Earnings per share disclosed in the consolidated income statement are calculated by dividing the net earnings attributable to ordinary shareholders by the weighted average number of shares outstanding during the period concerned.

A summary of the weighted average number of shares outstanding for the year ended 31 December 2011 and 31 December 2010 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 31 December 2011	**1 January – 31 December 2010**
Number of shares outstanding at 1 January	700,000,000	600,000,000
New shares issued		
Conversion of existing reserves (*)	100,000,000	100,000,000
Number of shares outstanding at the period end	**800,000,000**	**700,000,000**
Weighted average number of shares during the period (*)	**800,000,000**	**800,000,000**
Net profit (TL)	289,628	239,300
Basic and diluted earnings per share (in full TL)	**0.362**	**0.2991**

(*) Capital increase is made through internal resources and prior period's earnings per share figure is revised by using the number of shares subsequent to the capital increase.

35. EVENTS AFTER THE REPORTING PERIOD

In the meeting of the General Assembly held on 26 March 2012; it has been resolved that, paid-in capital of the Bank would be increased from TL 800,000 to TL 1,100,000. In respect of the resolution of the General Assembly, TL 137,000 of this increase was transferred from the profit of the year 2011 and TL 163,000 from extraordinary reserves.

Yatırım Finansman Menkul Değerler AŞ's share capital has been increased by TL 7,500. In the meeting of the General Assembly held on 20 March 2012; it has been resolved that, paid-in capital of the Bank would increased from TL 53,500 to TL 61,000. In respect of the resolution of the General Assembly, TL 7,500 of this increase was incorporated from the profit of the year 2011. The Bank obtained TL 7,184 bonus shares through the capital increase of Yatırım Finansman Menkul Değerler AŞ amounting to TL 7,500.

In the Board of Directors meeting held on 25 January 2012; it was decided to close the Bahrain Branch of the Bank and in this context, General Management was authorized for the required operations.

At the General Assembly of the Bank held on 26 March 2012, it was decided to distribute a dividend of TL 45,000 to shareholders and TL 5,477 to personnel and members of the Board of Directors and to allocate TL 27,515 to legal reserves from retained earnings. At 27 March 2012, dividend has been paid to personnel and at 30 March 2012 to members of the Board of Directors and shareholders.