

**TÜRKİYE
HALK BANKASI A.Ş.
AND ITS SUBSIDIARIES**

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2009

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Türkiye Halk Bankası A.Ş.
Ankara, Turkey

Report on the Financial Statements

1. We have audited the accompanying consolidated financial statements of Türkiye Halk Bankası A.Ş. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated financial position as at December 31, 2009 and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

Opinion

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

DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

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

Member of **DELOITTE TOUCHE TOHMATSU**

Ankara, March 10, 2010

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TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2009

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

	Notes	December 31, 2009	December 31, 2008
ASSETS			
Cash and cash equivalents	4	1.428.659	2.309.963
Balances with Central Bank	5	3.158.978	2.797.332
Money market placements		199	425
Financial assets at fair value through profit and loss	6	35.434	47.901
Derivative financial instruments	16	20.528	79.182
Loans and advances to customers	7	31.448.917	25.504.959
Loans and advances to financial institutions	7	1.093.946	420.658
Insurance premium receivables		41.611	39.805
Investment securities:			
- Available-for-sale	6	4.891.066	2.468.889
- Held-to-maturity	6	16.573.548	15.863.664
Investment in associates	8	191.465	170.501
Premises and equipment	9	1.156.972	942.482
Intangible assets		12.089	6.387
Deferred tax asset	15	183.106	49.755
Non-current assets held for sale		84.091	132.463
Other assets	10	525.950	346.703
Total assets		60,846,559	51,181,069
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	11	41.956.122	38.926.598
Deposits from banks	11	1.923.124	1.264.682
Obligations under repurchase agreements		5.757.667	2.390.444
Interbank money market borrowings		19.422	-
Derivative financial instruments	16	88.956	22.246
Funds borrowed	12	3,347,319	2,737,353
Insurance payables		10,680	4,651
Other liabilities and provisions	13	1,257,083	1,104,336
Insurance technical reserves	14	134,682	117,164
Income taxes payable		133,859	22,393
Total liabilities		54,628,914	46,589,867
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	17	2,578,184	2,578,184
Unrealized gains/(losses) on available-for-sale investments, net of tax		40,135	(111,812)
Currency translation reserve		(13,734)	(14,443)
Hedging funds, net of tax		(10,087)	(18,533)
Retained earnings	18	3,616,344	2,150,862
Non-controlling interests		6,803	6,944
Total equity		6,217,645	4,591,202
Total liabilities and equity		60,846,559	51,181,069

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED DECEMBER 31, 2009

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

	Notes	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Interest income			
Interest on loans and advances		4.225.937	3.773.463
Interest on securities		2.451.134	2.796.616
Interest on deposits with banks and other financial institutions		126.787	219.640
Interest on other money market placements		4.498	9.643
Other interest income		20.843	10.284
Total interest income		6,829,199	6,809,646
Interest expense			
Interest on customer deposits		(3.137.513)	(4.329.495)
Interest on other money market deposits		(331.285)	(224.232)
Interest on funds borrowed and deposits from other banks		(141.352)	(73.248)
Other interest expense		(90.002)	(35.627)
Total interest expense		(3,700,152)	(4,662,602)
Net interest income		3,129,047	2,147,044
Fees and commissions and other operating income			
Fees and commissions income	23	534,146	441,561
Fees and commissions expenses	23	(82.823)	(72,398)
Net fees and commissions income		451,323	369,163
Income from insurance operations		135.848	155,282
Foreign exchange gain / (loss)		(41,107)	(706,304)
Gains/(losses) on securities		59,258	514,032
Other income	21	77,289	140,574
Cost of insurance operations		(83,515)	(90,652)
Operating expenses	22	(1,255,969)	(1,146,604)
(Provisions for) / recoveries from impairment of loan receivables		(335,211)	33,151
Operating profit		2,136,963	1,415,686
Income from associates		10,895	20,828
Profit before income tax		2,147,858	1,436,514
Income tax expense	15	(393,527)	(263,535)
Profit for the year		1,754,331	1,172,979
Profit attributable to:			
Equity holders of the parent		1,753,556	1,171,537
Minority interest		775	1,442
Earnings per share (full TRY)	19	0.00123	0.00082

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR
ENDED DECEMBER 31, 2009

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

	Notes	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Profit for the year		1,754,331	1,172,979
Other comprehensive income / (loss)			
Currency translation differences		709	21.803
Net value gains / (losses) on available-for-sale financial assets, net of tax		151.960	(157.806)
Net change in fair values		210.232	(138.746)
Net amount transferred to income		(58.272)	(19.060)
Net value gains / (losses) on hedging fund, net of tax		8.446	(18.533)
Other comprehensive income / (loss) for the year, net of tax		161,115	(154,536)
Total comprehensive income for the year		1,915,446	1,018,443
Total comprehensive income attributable to:			
Equity holders of the parent		1,914.658	1,017.024
Minority interest		788	1.419

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR
ENDED DECEMBER 31, 2009

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

	Share capital	Adjustment to share capital	Unrealized gains/(losses) on available-for-sale investments	Currency translation differences	Hedging funds (effective part)	Retained earnings	Attributable to equity holders of the parent	Non-controlling Interests	Total equity
At December 31, 2007	1,250,000	1,328,184	45,971	(36,246)	-	1,889,206	4,477,115	5,754	4,482,869
Effect of net investment hedge	-	-	-	-	-	(34,225)	-	-	(34,225)
Total comprehensive income for the year	-	-	(157,783)	21,803	(18,533)	1,171,537	982,799	1,419	1,018,443
<u>Owners' equity changes:</u>									
Dividends paid	-	-	-	-	-	(875,780)	(875,780)	(83)	(875,863)
Capital increase	-	-	-	-	-	-	-	(22)	(22)
Acquisition of subsidiaries	-	-	-	-	-	124	124	(124)	-
At December 31, 2008	1,250,000	1,328,184	(111,812)	(14,443)	(18,533)	2,150,862	4,584,258	6,944	4,591,202
Effect of net investment hedge	-	-	-	-	-	(7,305)	-	-	(7,305)
Total comprehensive income for the year	-	-	151,947	709	8,446	1,753,556	1,907,353	788	1,915,446
<u>Owners' equity changes:</u>									
Dividends paid	-	-	-	-	-	(281,579)	(281,579)	(78)	(281,657)
Capital increase	-	-	-	-	-	-	-	(41)	(41)
Acquisition of subsidiaries	-	-	-	-	-	810	810	(810)	-
At December 31, 2009	1,250,000	1,328,184	40,135	(13,734)	(10,087)	3,616,344	6,210,842	6,803	6,217,645

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2009

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

	Notes	01.01.2009 – 31.12.2009	01.01.2008 – 31.12.2008
Cash flow from operating activities			
Net profit for the year		1,753,556	1,171,537
Adjustments for:			
Depreciation and amortization	22	64,159	52,638
Provision for losses on loans and advances	7	499,398	237,495
Provision for employment termination benefits	22	34,208	46,513
Other provision expenses	22	-	614
Income from associates		(10,895)	(20,828)
Impairment of premises and equipment	9	9,055	4,630
(Gains) on sale of property, plant & equipment	21-22	(25,560)	(67,390)
Profit attributable to the minority interest		775	1,442
Add back income tax expense	15	393,527	263,535
Deduct interest income		(6,829,199)	(6,809,646)
Add back interest expense		3,700,152	4,662,602
Operating profits before changes in operating assets/liabilities		(410,824)	(456,858)
Changes in operating assets and liabilities:			
Net (increase)/decrease in balances with Central Bank		(392,077)	449,511
Net decrease/(increase) in interbank money market placements		226	(425)
Net increase in funds lent under securities resale agreements		3,371,764	689,989
Net decrease in financial assets at fair value through profit or loss, net		11,496	413,727
Net increase in loans and advances		(7,323,651)	(7,757,572)
Net (increase) in insurance receivables		(1,806)	(3,422)
Net (increase) in other assets		(180,523)	(19,839)
Net increase in deposits		3,896,464	9,274,747
Net increase in interbank money market borrowings		19,422	-
Net increase in other creditors, taxes & liabilities		164,866	110,314
Retirement pay paid	13	(33,556)	(27,246)
Income taxes paid		(446,445)	(309,697)
Interest received		6,951,374	6,473,457
Interest paid		(3,855,784)	(4,635,377)
Net cash provided by operating activities		1,770,946	4,201,309
Cash flows from investing activities			
Purchase of premises & equipment	9	(191,148)	(348,020)
Proceeds from sale of premises & equipment	9	91,378	98,571
Purchase of available for sale investments		(1,008,940)	(2,494,985)
Purchase of investments in associates		(5,417)	(2,437)
Purchase of held to maturity securities		(1,869,747)	(462,344)
Purchase of intangible assets		(6,967)	(4,356)
Net cash used in investing activities		(2,990,841)	(3,213,571)
Cash flows from financing activities			
Proceeds from borrowed funds, net		621,099	755,789
Dividends paid	18	(281,657)	(875,780)
Other		(851)	124
Net cash provided from/(used in) financing activities		338,591	(119,867)
Net (decrease)/increase in cash & cash equivalents		(881,304)	867,871
Cash & cash equivalents at the beginning of the year	4	2,309,963	1,442,092
Cash & cash equivalents at the end of the year	4	1,428,659	2,309,963

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2009

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

1. GENERAL INFORMATION ABOUT THE BANK

General

Türkiye Halk Bankası A.Ş. ("the Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2009, Bank operates 655 branches, including 652 domestic branches, 2 branches in Cyprus and 1 in Bahrain. In addition, it has 3 financial service branches in Germany and 1 representative branch in Iran. The operations of Türkiye Halk Bankası A.Ş. and subsidiaries ("the Group") consist of banking, securities brokerage and insurance services provided primarily to local customers. The financial statements of the Group include the accounts of Pamukbank, transferred to the Bank in November 2004, and consolidation of separate financial statements of majority owned subsidiaries, Birlik Sigorta A.Ş., Birlik Hayat Sigorta A.Ş. and Halk Yatırım Menkul Değerler A.Ş.

In 2000, the Turkish Parliament passed Statute 4603, pursuant to which state-owned banks were required to restructure its operations and prepare themselves to eventual privatization. According to the Decree number 2006/69, dated as 11 August 2006 issued by Privatization High Council, all outstanding shares of the Bank are transferred to the Privatization Administration and 99.9 % of Bank shares should be sold to general public.

The first phase of the privatization process of the Bank corresponding to 24.98% of the shares was completed in the first week of May 2007 and Halkbank shares have been traded on İstanbul Stock Exchange (ISE) as of May 10, 2007 with the base price of TRY 8.00.

In November 2004, the Bank merged with Pamukbank, another state owned bank and integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Birlik Sigorta A.Ş., a property, health and casualty insurance company, Birlik Hayat Sigorta A.Ş., a life insurance company, and Halk Yatırım Menkul Değerler A.Ş., an equity brokerage services company, from Halkbank Foundation.

The operations of the Group consist of banking, insurance and brokerage services, which are conducted mainly with local customers.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Presentation of Financial Statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale securities, financial assets at fair value through profit and loss and derivative financial instruments that have been measured at fair value.

The Bank and its subsidiaries are incorporated in Turkey and maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant law and regulations. The foreign associates maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with IFRS, which are not recorded in the accounting books of Group's entities.

2.2 Basis of Consolidation

The consolidated financial statements include the accounts of the Bank, Pamukbank and the majority-owned subsidiaries. The accounts of Pamukbank, owned by Savings Deposit Insurance Fund ("SDIF"), an entity under common control, were merged with the operations of the Bank in 2004 and are presented as if the transfer of Pamukbank's interests in the Bank had occurred from the beginning of the earliest period presented. The assets and liabilities of Pamukbank transferred to the Group are recorded in these financial statements at the historical cost immediately prior to the merger.

Majority-owned subsidiaries where the Bank has operating and financial control are consolidated. Subsidiaries are all entities over which the Group has power to govern the financial and operating policies so as to benefit from its activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

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

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of Consolidation (continued)

The subsidiaries included in consolidation and effective shareholding percentages of the Group as of December 31, 2009 and 2008 are as follows:

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Birlik Sigorta A.Ş.	İstanbul	89.18%	82.36%	87.50%	87.50%
Birlik Hayat Sigorta A.Ş.	İstanbul	98.86%	98.51%	85.71%	85.71%
Halk Yatırım Menkul Değerler A.Ş.	İstanbul	99.96%	99.96%	88.89%	88.89%

Interests of non-controlling shareholders in the net assets (excluding goodwill) 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 (see below) and the non-controlling interests' share of changes in equity since the date of the combination.

Losses applicable to the non-controlling interests in excess of the interest of non-controlling shareholders in the subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover the losses.

2.3 Use of Estimates and Judgments

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS), requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Management do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results from operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the financial statements. The judgments and estimates that may have a significant effect on amounts recognized in the financial statements are discussed in the relevant sections below.

2.4 Functional and Presentation Currency

Functional currency of the bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TRY). The functional currency of the Bank's foreign associates is the local currency. Until December 31, 2004, 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 financial statements of these companies were restated for the changes in the general purchasing power of TRY based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
DECEMBER 31, 2009

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Business Combinations and Goodwill

The purchase method of accounting is used for acquired businesses. The cost of the acquisition is measured as 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 recognized at their fair values at the acquisition date. Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

2.6 Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. The investments in associates are carried on the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The income statement reflects the Group's share of the results of operations of the associates. When there is a change recognized directly in the equity of an associate, the Group recognizes its share of any changes and discloses this when applicable, in the statement of changes in equity.

	Place of Incorporation	Effective Shareholding %		Voting Rights %	
		December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Demirhalkbank N.V.	Rotterdam	30.00%	30.00%	25.00%	25.00%
Halk Finansal Kiralama A.Ş.	İstanbul	47.75%	47.75%	42.86%	42.86%
Kobi A.Ş.	İstanbul	32.26%	32.26%	25.00%	25.00%

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those by the Group for similar transactions and events.

2.7 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
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Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Movables	50 years
Other Tangible Fixed Assets	5 - 8 years
Leasehold Improvements	5 years
Land	Not depreciated

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes its intangible assets consisting primarily of software on a straight-line basis over the estimated useful lives of 5 years. There are no intangible assets with indefinite useful lives.

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

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED
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Amounts expressed in thousands of Turkish Lira (TRY) unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and Other Financial Assets

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

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

a) Financial Assets at Fair Value Through Profit or Loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income and include any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 25.

b) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. There has been no tainting in the held-to-maturity portfolio during 2009 or 2008.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

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

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and Other Financial Assets (continued)

c) Loans and Receivables

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

d) Available-for-Sale Financial Assets

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

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

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

e) Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included in obligations under repurchase agreements. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using the effective interest method.

2.11 Offsetting Financial Instruments

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

2.12 Cash and Cash Equivalents

For the purposes of the consolidated cash flows statement, cash and cash equivalents comprise cash, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets

a) Assets carried at Amortized Cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - i. adverse changes in the payment status of borrowers; or
 - ii. national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of Financial Assets (continued)

b) Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount.

c) Assets carried at Fair Value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

2.14 Non-Current Assets Held for Sale

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

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

2.15 Borrowings

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

2.16 Employee Benefits – Defined Benefit Plans

Defined Benefit Plans:

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

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

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations which are disclosed in Note 13 are reviewed regularly. The carrying value of employee termination benefit provisions as of December 31, 2009 is TRY 180,431. (December 31, 2008 – TRY 179,779.)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee Benefits – Defined Benefit Plans (continued)

Defined Benefit Plans: (continued)

In addition to the employee termination benefits, the Group maintains privately administrated pension plans, Pamukbank T.A.Ş. Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (“Pamukbank Pension Fund”) and T.C. Ziraat Bankası and T. Halk Bankası A.Ş. Mensupları Emekli ve Yardım Sandığı Vakfı (“Ziraat-Halk Pension Fund”). As of December 31, 2009 Pamukbank pension fund has 7,683 active members and Ziraat-Halk pension fund has 7,025 active members. The members of the plan receive pension benefits on retirement, dependent on several factors such as age, years of service and compensation. The Group recognized the liability in the balance sheet in respect to these plans equal to the present value of the defined benefit obligation at the balance sheet less the fair value of the assets. 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 the expected interest rates for Turkish Lira.

As per Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds are required to be transferred directly to the Social Security Foundation (SSF) within a period of three years. The Social Security Foundation and the Ministry of Labor completed the methodology and parameters to be used for the calculation of this transfer and the related Decree was approved by the Board of Ministries on 30 November 2006 and published in the Official Gazette no. 26377 dated 15 December 2006. The methodology included the calculation of the defined benefit obligation using 10.24% and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of December 31, 2009, no technical deficit has been reported (December 31, 2008: None).

2.17 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.18 Leases

The Group as Lessee

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Insurance Contracts

Effective January 1, 2005, the Group's insurance subsidiary ("the Companies") adopted IFRS 4, Insurance Contracts ("IFRS 4"). IFRS 4 represents the completion of phase I and is a transitional standard until the IASB has more fully addressed the recognition and measurement of insurance contracts. IFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts. Contracts with significant insurance risk are considered insurance contracts. IFRS 4 permits a company to continue with its previously adopted accounting policies with regards to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with IAS 39 revised.

The Company enters into contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. Financial risk is defined as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. The Company has not entered into any contracts that transfer financial risk.

Reinsurance contracts held

The Company cedes premium and risks in the normal course of business in order to limit the potential for losses arising from risks accepted. Insurance premiums ceded to reinsurers on contracts that are deemed to transfer significant insurance risk are recognized as an expense in a manner that is consistent with the recognition of insurance premium revenue arising from the underlying risks being protected.

Insurance claims and loss adjustment expenses recovered from reinsurers are accounted for in the same accounting period as the claims for the related inward insurance and reinsurance business being covered and are estimated in a manner consistent with the claim liability associated with the reinsurance policy.

Provision is made for potentially non-collectable reinsurance recoveries and the exposure of the Company to credit risk is assessed through the aggregation of reinsurance assets due from counterparties belonging to the same insurance companies.

Deferred acquisition costs ("DAC")

Costs which vary and are directly associated with the acquisition of insurance and reinsurance contracts including brokerage, commissions, underwriting expenses and other acquisition costs are deferred and amortized over the period of contract, consistent with the earning of premium.

Insurance claims and loss adjustment expenses

Insurance claims and loss adjustment expenses comprise the estimated cost of all claims occurring prior to the balance sheet date, whether reported or not, and include loss adjustment expenses related to internal and external direct and indirect claims handling costs, and adjustments to claims outstanding from previous years. Claims handling costs include related internal and external direct and indirect claims handling costs and consist of third party loss adjustor fees, legal expenses and claims staff costs.

Liabilities for unpaid claims are made on an individual case basis and are based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and net of salvage and subrogation recoveries. The provision also includes the estimated cost of claims incurred but not reported at the balance sheet date based on statistical methods.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Insurance Contracts (continued)

Liability adequacy test (“LAT”)

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related DAC and premiums receivable.

Provision is made where current best estimates of future contractual cash flows and claims handling and administration expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums net of DAC and premiums receivable. Investment income from the assets backing the liabilities is taken into account in calculating the provision. The assessment of whether a provision is necessary is made on the basis of information available as of the balance sheet date, after offsetting surpluses and deficits arising on products which are managed together. Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).

Any DAC written off as a result of this test cannot subsequently be reinstated.

2.20 Interest Income and Expense

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

2.21 Fee and Commission Income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognized rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

The Bank makes agreements with institutions to open personnel salary accounts. For each contract Bank agrees to pay fees to the institutions at the beginning date of the contract. These payments are recorded as “prepaid promotion expense” at the time of payment and recognized as expense during the life of the contract.

2.22 Income Tax

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

The Group is subject to income taxes in various jurisdictions. Where there are matters the final tax outcome is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Income Tax (continued)

Current tax

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

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management's judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

2.23 Derivative Financial Instruments

The Group started entering into transactions with derivative instruments including interest rate swaps and currency swaps in the foreign exchange and capital markets in 2006. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. As of December 31, 2009, the carrying amount of derivative financial assets was TRY 20,528 (2008: TRY 79,182) and the carrying amount of derivative financial liabilities is TRY 88,956 (2008: TRY 22,246).

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and reprising date are used. Changes in assumptions about these factors could affect reported fair value of financial instruments.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Derivative Financial Instruments (continued)

The Bank engaged in a net investment hedge transaction for its foreign currency associate Demirhalkbank N.V., operating in Netherlands. The valuation difference as a result of this transaction was booked as currency translation differences under equity and recorded the valuation difference due to the net investment hedge transaction was booked as hedging funds under equity.

2.24 Fiduciary Assets

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

2.25 Operating Segments

The Group has adopted IFRS 8 starting 1 January 2009 and have identified relevant operating segments based on internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker of the Group (CODM).

Business segments of the Group are defined in the following categories: corporate, commercial, entrepreneur, treasury/investment, insurance and security brokerage. Certain assets and liabilities and tax expenses are excluded from segmental disclosures as they are managed centrally at the corporate level. The results of the corporate level of the Group are considered incidental. Results of the Group's corporate level is included as part of 'Undistributed items' in the reconciliation of segment totals.

Inter-segment transactions are recognized and measured at fair value. Transactions between the segments are carried at arm's length and the revenue from both external customers and those from inter-segment activities are measured in a consistent manner. Furthermore, there is no difference between the measurements of the segments' profits or losses and the Group's profits or loss before income taxes. The measurement of reportable segments' assets and liabilities is also consistent with the measurement and recognition policy of the Group in general.

2.26 Changes in Accounting Policies

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

- IAS 1(Revised), "Presentation of financial statements"

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

- IFRS 7 (Amendments), "Financial Instruments: Disclosures"

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Changes in Accounting Policies (continued)

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

The Group has implemented the amendments to IFRS 7 in 2009 and has disclosed fair value hierarchy information in Note 25 to the consolidated financial statements. In the current year, the Group did not make significant transfers between fair value hierarchy levels. Furthermore, the Group has included contractual maturity analysis in Note 25 to the consolidated financial statements.

• IFRS 8 ‘Operating Segments’

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

The Group has adopted the provisions of IFRS 8 Operating Segments in 2009. Revised segment disclosure is presented in Note 3 to the consolidated financial statement. The Group has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision makers.

• IFRIC 13 ‘Customer Loyalty Programmes’

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

The Group management believes that the adoption of the standard would not have a significant impact on the consolidated financial statements.

Standards, amendments and interpretations effective in 2009 but not relevant

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

- IFRS 1 ‘First time adoption of IFRS’ and IAS 27 ‘Consolidated and separate financial statements’ (Amendment relating to cost of an investment on first-time adoption)
- IFRS 2 ‘Share-based Payment’ (Amendment relating to vesting conditions and cancelations)
- IAS 23 “Borrowing costs” (Comprehensive revision to prohibit immediate expensing)
- IAS 1 ‘Presentation of Financial Statements’ and IAS 32 ‘Financial Instruments – Presentation’ (Amendments relating to disclosure of puttable instruments and obligations arising on liquidation)
- IAS 39 ‘Financial Instruments: Recognition and Measurement’ (Amendments for embedded derivatives when reclassifying financial instruments)
- Amendments resulting from May 2008 Annual Improvements to IFRSs (IAS 1 “Presentation of Financial Statements”, IAS 16 “Property, Plant and Equipment”, IAS 19 “Employee Benefits”, IAS 20 “Government Grants and Disclosure of Government Assistance”, IAS 23 “Borrowing Costs”, IAS 27 “Consolidated and Separate Financial Statements”, IAS 28 “Investment in Associates”, IAS 31 “Interests in Joint Ventures”, IAS 29 “Financial Reporting in Hyperinflationary Economies”, IAS 36 “Impairment of Assets”, IAS 38 “Intangible Assets”, IAS 39 “Financial Instruments: Recognition and Measurement”, IAS 40 “Investment Property”, IAS 41 “Agriculture”)
- IFRIC 15, “Agreements for the Construction of Real Estate”
- IFRIC 16, “Hedges of a Net Investment in a Foreign Operation”

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 Changes in Accounting Policies (continued)

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

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 1 ‘First Time Adoption of IFRS’ (Amendments relating to oil and gas assets and determining whether an arrangement contains a lease)
- IFRS 2 ‘Share-based Payment’ (Amendment relating to group cash-settled share-based payment transactions)
- IFRS 3 “Business Combinations”, IAS 27 ‘Consolidated and separate financial statements’, IAS 28 “Investment in Associates”, IAS 31 “Interests in Joint Ventures” (Comprehensive revision on applying the acquisition method)
- IFRS 9 “Financial Instruments” (First stage of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” including provisions related to recognition and derecognition, classification and measurement of financial instruments)
- IAS 24 “Related Part Disclosures” (Revised definition of related parties)
- IAS 32 “Financial Instruments: Presentation” (Amendments relating to classification of rights issues)
- IAS 39 ‘Financial Instruments: Recognition and Measurement’ (Amendments for eligible hedged items)
- IFRIC 14 “The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (An interpretation of IAS 19 “Employee Benefits”) - November 2009 amendment with respect to voluntary prepaid contributions is effective for annual periods beginning on or after 1 January 2011
- IFRIC 17 “Distributions of Non-cash Assets to Owners” Amendments resulting from May 2008 Annual Improvements to IFRSs (IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations)
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (Amendments for equity instruments)
- Amendments resulting from April 2009 Annual Improvements to IFRSs (IFRS 2 “Share-based Payment”, IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations, IFRS 8 “Operating Segments”, IAS 1 “Presentation of Financial Statements”, IAS 7 “Statement of Cash Flows”, IAS 17 “Leases”, IAS 36 “Impairment of Assets, IAS 38 “Intangible Assets”, IAS 39 “Financial Instruments: Recognition and Measurement”
- IFRIC 18 “Transfers of Assets From Customers” - for all transfers received on or after 1 July 2009.

The impact of application of above standards on the Group’s consolidated financial statements is currently being reviewed by management.

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3. SEGMENT INFORMATION

Business segments

The Group has adopted IFRS 8 starting 1 January 2009 and have identified relevant operating segments based on internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker of the Group (CODM). Previous period segment information is restated accordingly.

The Group is organized into six main business segments, Corporate, Commercial, Entrepreneur, Treasury / Investment, Insurance and Securities Brokerage, which are organized and managed separately according to the nature of the products and services provided.

The segment results for the year ended December 31, 2009 are as follows:

	Corporate	Commercial	Entrepreneur	Treasury / Investment	Insurance	Securities Brokerage	Undistributed	Inter- segment Eliminations	Group
Interest Income	679,248	501,979	6,675,653	6,089,215	16,308	4,474	-	(7,137,678)	6,829,199
Interest Expense	(519,919)	(347,237)	(5,151,785)	(4,818,446)	-	(443)	-	7,137,678	(3,700,152)
Net interest income	159,329	154,742	1,523,868	1,270,769	16,308	4,031	-	-	3,129,047
Fees and commissions income	30,424	27,344	372,238	113,388	-	14,822	-	(24,070)	534,146
Fees and commissions expenses	(148)	(148)	(2,950)	(79,558)	-	(184)	-	165	(82,823)
Foreign exchange gain	-	-	-	(43,404)	204	2,093	-	-	(41,107)
Gains less losses on securities	-	-	-	59,258	-	-	-	-	59,258
Income from insurance operations	-	-	-	-	149,696	-	-	(13,848)	135,848
Cost of insurance operations	-	-	-	-	(107,420)	-	-	23,905	(83,515)
Other income	3,838	634	-	73,596	64	456	-	(1,299)	77,289
Operating expenses (Provisions for) / recoveries from impairment of loan receivables	(11,798)	(37,968)	(568,045)	(615,926)	(27,287)	(10,139)	-	15,194	(1,255,969)
Income from associates	(2,629)	(54,388)	(17,435)	(260,759)	-	-	-	-	(335,211)
	-	-	-	15,076	18	-	-	(4,199)	10,895
Profit from before income tax	179,016	90,216	1,307,676	532,440	31,583	11,079	-	(4,152)	2,147,858
Income tax	-	-	-	-	(6,984)	(2,197)	(384,346)	-	(393,527)
Net profit	179,016	90,216	1,307,676	532,440	24,599	8,882	(384,346)	(4,152)	1,754,331

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3. SEGMENT INFORMATION (continued)

The segment assets and liabilities at 31 December 2009 are as follows:

Assets and Liabilities	Corporate	Commercial	Entrepreneur	Treasury / Investment	Insurance	Securities Brokerage	Undistributed	Inter- segment Eliminations	Group
Segment assets	4,263,028	3,184,256	21,393,121	30,105,849	280,581	71,633	1,431,697	(75,071)	60,655,094
Investment in associates	-	-	-	-	-	-	273,213	(81,748)	191,465
Total assets	4,263,028	3,184,256	21,393,121	30,105,849	280,581	71,633	1,704,910	(156,819)	60,846,559
Segment liabilities	3,930,034	2,183,180	33,601,002	14,800,595	157,084	31,537	-	(74,518)	54,628,914
Total liabilities	3,930,034	2,183,180	33,601,002	14,800,595	157,084	31,537	-	(74,518)	54,628,914
Other segment items									
Capital expenditure									
Tangible fixed assets	-	-	-	-	1,497	191	341,636	-	343,324
Intangible fixed assets	-	-	-	-	1,067	53	10,855	-	11,975
Depreciation	-	-	-	-	480	195	62,219	-	62,894
Amortization	-	-	-	-	268	36	961	-	1,265

* Premises and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Bank is presented under "Undistributed" column.

Inter-segment transfers and transactions are entered into under the normal commercial terms and conditions that would also be available to third parties.

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3. SEGMENT INFORMATION (continued)

Business segments (continued)

The segment results for the year ended December 31, 2008 are as follows:

	Corporate	Commercial	Entrepreneur	Treasury / Investment	Insurance	Securities Brokerage	Undistributed	Inter- segment Eliminations	Group
Interest Income	770,584	313,938	6,611,780	7,220,732	17,582	3,464	-	(8,128,434)	6,809,646
Interest Expense	(676,381)	(350,062)	(6,212,049)	(5,552,304)	-	(240)	-	8,128,434	(4,662,602)
Net interest income	94,203	(36,124)	399,731	1,668,428	17,582	3,224	-	-	2,147,044
Fees and commissions income	14,618	19,894	320,899	87,055	-	3,097	-	(4,002)	441,561
Fees and commissions expenses	(111)	(126)	(2,254)	(69,707)	-	(200)	-	-	(72,398)
Foreign exchange gain	-	-	-	(706,762)	458	-	-	-	(706,304)
Gains less losses on securities	-	-	-	513,193	(8,054)	8,893	-	-	514,032
Income from insurance operations	-	-	-	-	155,282	-	-	-	155,282
Cost of insurance operations	-	-	-	-	(94,654)	-	-	4,002	(90,652)
Other income	1,751	18,971	32,338	86,810	704	-	-	-	140,574
Operating expenses (Provisions for) / recoveries from impairment of loan receivables	(11,555)	(31,272)	(518,376)	(537,561)	(38,031)	(9,809)	-	-	(1,146,604)
Income from associates	(2,414)	(21,545)	256,549	(199,439)	-	-	38,371	(17,543)	33,151
	-	-	-	-	-	-	-	-	20,828
Profit from before income tax	96,492	(50,202)	488,887	842,017	33,287	5,205	38,371	(17,543)	1,436,514
Income tax	-	-	-	-	(5,954)	(1,082)	(256,499)	-	(263,535)
Net profit	96,492	(50,202)	488,887	842,017	27,333	4,123	(218,128)	(17,543)	1,172,979

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3. SEGMENT INFORMATION (continued)

The segment assets and liabilities at 31 December 2008 are as follows:

Assets and Liabilities	Corporate	Commercial	Entrepreneur	Treasury / Investment	Insurance	Securities Brokerage	Undistributed	Inter-segment Eliminations	Group
Segment assets	3,176,207	2,504,233	20,022,583	24,007,245	220,462	36,453	1,128,219	(84,834)	51,010,568
Investment in associates	-	-	-	-	684	-	233,034	(63,217)	170,501
Total assets	3,176,207	2,504,233	20,022,583	24,007,245	221,146	36,453	1,361,253	(148,051)	51,181,069
Segment liabilities	3,821,003	2,243,365	32,780,487	7,684,576	140,030	5,240	-	(84,834)	46,589,867
Total liabilities	3,821,003	2,243,365	32,780,487	7,684,576	140,030	5,240	-	(84,834)	46,589,867

Other segment items

Capital expenditure	-	-	-	-	582	313	441,101	-	441,996
Tangible fixed assets	-	-	-	-	208	20	4,233	-	1,596
Intangible fixed assets	-	-	-	-	275	170	51,378	-	51,823
Depreciation	-	-	-	-	128	39	648	-	815
Amortization	-	-	-	-	-	-	-	-	-

* Premises and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Bank is presented under "Undistributed" column.

Inter-segment transfers and transactions are entered into under the normal commercial terms and conditions that would also be available to third parties.

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3. SEGMENT INFORMATION (continued)

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total entity revenue.

Year ended December 31, 2009

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Other segment information						
Segment assets	59,360,742	965,202	651	11,711	508,253	60,846,559
Unallocated assets	-	-	-	-	-	-
Total assets	59,360,742	965,202	651	11,711	508,253	60,846,559
Acquisition of segment assets						
Tangible fixed assets	343,324	-	-	-	-	343,324
Intangible fixed assets	11,975	-	-	-	-	11,975

Year ended December 31, 2008

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Other segment information						
Segment assets	48,739,651	2,119,363	197,385	28,943	95,727	51,181,069
Unallocated assets	-	-	-	-	-	-
Total assets	48,739,651	2,119,363	197,385	28,943	95,727	51,181,069
Acquisition of segment assets						
Tangible fixed assets	441,996	-	-	-	-	441,996
Intangible fixed assets	1,596	-	-	-	-	1,596

Total assets are allocated based on where the assets are located.

The segment results for the year ended December 31, 2009 are as follows:

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Revenue	6,783,971	30,840	333	-	14,055	6,829,199

The segment results for the year ended December 31, 2008 are as follows:

	Turkey	European Union	USA and Canada	OECD Countries	Other	Total
Revenue	6,698,503	87,632	9,083	1,424	13,004	6,809,646

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4. CASH AND CASH EQUIVALENTS

	December 31, 2009	December 31, 2008
Cash on hand	256,746	211,998
Demand deposits - Turkish Lira	22,618	26,646
Demand deposits - Foreign Currency	40,976	46,077
Time deposits	1,108,315	2,025,242
Reverse repurchase agreements	4	-
Deposits with banks and other financial institutions	1,171,913	2,097,965
Cash and cash equivalents	1,428,659	2,309,963

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

	December 31, 2009		December 31, 2008	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with Central Bank (**)	5.20%	-	12.25%	-
Deposits with banks and other financial institutions (*)	7.5%	0.20% EURO – 0.27% USD	12.12%	1.90 % EURO – 2.81 % USD
Funds lent under reverse repurchase agreements	-	-	-	-

(*) Interest rates calculated from weighted average of placements as of December 31, 2009 and 2008.

(**) As of December 12, 2008, interest rate given by Central Bank of Turkey to USD and EURO reserve deposits is nil.

5. BALANCES WITH CENTRAL BANK

	December 31, 2009	December 31, 2008
Balances with Central Bank	2,322,912	1,965,594
Reserve deposits	836,066	831,738
Balances with Central Bank	3,158,978	2,797,332

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

As of December 31, 2009, the reserve deposit requirements applicable in Turkey for Turkish Lira and foreign currency deposits were 5% and 9% (December 31, 2008: 6% and 9%) respectively.

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6. INVESTMENTS IN FINANCIAL INSTRUMENTS

Financial assets at fair value through profit and loss:

	December 31, 2009	December 31, 2008
	Amount	Amount
Financial assets at fair value through profit and loss		
Debt instruments		
Turkish Government bonds and Eurobonds issued by the Turkish Government	33,185	45,483
Turkish treasury bills	462	1,547
Bonds issued by financial institutions	1,778	862
Equity instruments –listed	9	9
Total financial assets at fair value through profit and loss	35,434	47,901

Investment Securities:

	December 31, 2009	December 31, 2008
	Amount	Amount
Available- for-sale securities – Quoted		
Turkish Government bonds and Eurobonds issued by the Turkish Government	4,879,447	2,457,559
Turkish treasury bills	-	1,599
Available-for-sale securities -Unquoted	11,619	11,330
Equity instruments –unlisted at cost	11,619	11,330
Turkish Government bonds and Eurobonds issued by the Turkish Government	-	-
Total available for sale securities	4,891,066	2,468,889

	December 31, 2009	December 31, 2008
	Amount	Amount
Held to maturity securities - Quoted		
Turkish Government bonds	9,350,547	8,219,844
Eurobonds issued by the Turkish Government	2,155,164	1,762,527
Held to maturity securities - Unquoted	5,067,837	5,881,293
Turkish government bonds	5,067,837	5,881,293
Total held-to-maturity securities	16,573,548	15,863,664

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6. INVESTMENTS IN FINANCIAL INSTRUMENTS (continued)

In order to avoid the effect of market fluctuations on securities portfolio, on October 3, 2008 and October 8, 2008, the Bank reclassified TRY 8,961 Million in total; TRY 378 Million from Financial Assets at Fair Value Through Profit and Loss and TRY 8,583 Million from Available for Sale Securities portfolio to Held to Maturity Securities portfolio as permitted by the amendment of the International Accounting Standards Board issued in October 2008 to IAS 39 "Financial instruments: recognition and measurement" on reclassification of financial assets. Had the reclassification from Financial Assets at Fair Value Through Profit and Loss not been made to Held To Maturity Securities Portfolio, the bank would have recorded TRY 25,125 Thousand income accrual as at December 31, 2008. Fair value of the financial assets reclassified to held to maturity portfolio as of December 31, 2008 is TRY 9,772,228 thousand.

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

Securities Pledged Under Repurchase Agreements:

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

	December 31, 2009	December 31, 2008
Held-to-maturity securities	6,020,987	2,764,635
Available-for-sale securities	104,285	-
Carrying value of securities under repurchase agreements	6,125,272	2,764,635
Related liability	5,757,667	2,390,444

Repurchase agreements mature within 23 days. (31.12.2008: 28 days)

In addition, as of December 31, 2009, government securities with carrying values of TRY 2,483,194 (December 31, 2008 - TRY 2,042,197) are pledged to the Central Bank and the IMKB Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Bank) for regulatory requirements and as a guarantee for stock exchange and money market operations.

TRY 13,143,740 (December 31, 2008: TRY 10,774,765) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

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7. LOANS AND ADVANCES

	December 31, 2009	December 31, 2008
Loans and advances to financial institutions	1,093,946	420,658
Loans and advances to customers		
Cooperative loans	3,352,637	3,185,364
Commercial and industrial loans	18,899,187	15,198,484
Consumer loans	7,056,593	5,217,453
Funded loans	1,266,307	1,204,554
Credit cards	503,759	409,213
Non-performing loans	1,667,912	1,251,362
Total loans and advances to customers	32,746,395	26,466,430
Less: allowance for losses on loans and advances	(1,297,478)	(961,471)
Total loans and advances to customers, (net)	31,448,917	25,504,959

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

Loans and advances amounting to TRY 14,695,260 have floating interest rates and the rest have fixed interest rates. (December 31, 2008 – TRY 12,892,633)

Allowance for losses on loans and advances include the portfolio reserve and the specific reserve for loans. The portfolio reserve for impairment is provided based on past experience, management's assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

Movements in the allowance for losses on loans and advances:

	December 31, 2009	December 31, 2008
At the beginning of year	961,471	946,770
Provision for impairment	499,398	237,495
Recoveries	(163,391)	(222,794)
At the end of the year	1,297,478	961,471

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8. INVESTMENT IN ASSOCIATES

	December 31, 2009		December 31, 2008	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Investment in associate				
Halk Finansal Kiralama A.Ş.	43,209	47.75%	30,041	47.75%
Kobi Yatırım	11,993	31.47%	11,483	31.47%
Demir Halk Bank NV	127,922	30.00%	122,576	30.00%
Others	8,341		6,401	
Total	191,465		170,501	

Summary of latest financial information of investments is:

	Assets	Liabilities	Equity	Revenue	Profit / (Loss)
Investment in associate					
Halk Finansal Kiralama A.Ş.	405,806	315,315	90,491	36,241	27,581
Kobi Yatırım	38,281	171	38,110	15,940	1,622
Demir Halkbank NV	4,292,978	3,843,373	449,605	192,260	12,300

The financial information of Demirhalkbank NV is obtained from December 31, 2009 audited financial statements and the financial data of remaining associates are obtained from December 31, 2009 unaudited financial statements.

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9. PREMISES AND EQUIPMENT

	Land and Buildings	Leasehold Improvements	Fixed Assets Obtained for Non Performing Loans	Other Movable Fixed Assets	Total
<u>Acquisition Cost</u>					
At January 1, 2009	885,472	52,381	104,983	489,629	1,532,465
Additions	54,546	31,956	152,176	104,646	343,324
Impairment	(2,850)	-	(6,205)	-	(9,055)
Disposals	-	(4,784)	(8,176)	(93,853)	(106,813)
Transfers (to) / from asset held for sale	(5,830)	-	12,376	(2,794)	3,752
At December 31, 2009	931,338	79,553	255,154	497,628	1,763,673
<u>Accumulated Depreciation</u>					
At January 1, 2009	(168,018)	(21,132)	(2,727)	(398,106)	(589,983)
Charge for the year	(14,380)	(11,024)	(4,150)	(33,340)	(62,894)
Disposals	-	4,474	42	36,479	40,995
Transfer to asset held for sale	5,022	-	(1,553)	1,712	5,181
At December 31, 2009	(177,376)	(27,682)	(8,388)	(393,255)	(606,701)
At December 31, 2009	753,962	51,871	246,766	104,373	1,156,972

In Turkey, property, plant and equipment experience significant and volatile changes in fair value, thus necessitating frequent revaluation. The fair values of land and buildings and fixed assets obtained for non performing loans were determined from market-based evidence by appraisals which are undertaken by qualified external and/or internal appraisers. The bank renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts.

As of December 31, 2009 the cost of fully depreciated items is amounting to TRY 293,176 (December 31, 2008 – TRY 280,901).

	Land and Buildings	Leasehold Improvements	Fixed Assets Obtained for Non Performing Loans	Other Movable Fixed Assets	Total
<u>Acquisition Cost</u>					
At January 1, 2008	648,367	37,504	84,936	517,956	1,288,763
Additions	266,549	37,255	93,976	44,216	441,996
Impairment	(3,677)	-	(953)	-	(4,630)
Disposals	(834)	(22,378)	(4,676)	(72,543)	(100,431)
Transfer to asset held for sale	(24,933)	-	(68,300)	-	(93,233)
At December 31, 2008	885,472	52,381	104,983	489,629	1,532,465
<u>Accumulated Depreciation</u>					
At January 1, 2008	(158,148)	(22,972)	(1,538)	(429,136)	(611,794)
Charge for the year	(13,660)	(4,894)	(1,888)	(31,381)	(51,823)
Disposals	-	6,734	105	62,411	69,250
Transfers to asset held for sale	3,790	-	594	-	4,384
At December 31, 2008	(168,018)	(21,132)	(2,727)	(398,106)	(589,983)
At December 31, 2008	717,454	31,249	102,256	91,523	942,482

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10. OTHER ASSETS

	December 31, 2009	December 31, 2008
Prepaid promotion expenses	150,371	-
Sundry debtors	12,215	8,840
Banking service receivables	4,210	3,751
Receivables from credit cards	55,812	34,839
Prepaid expenses	15,470	15,307
Receivables from cheque clearance	148,499	108,984
Receivables from sale of assets	59,141	59,166
Temporary accounts	7,225	13,807
Collaterals for derivative instruments	51,756	91,020
Other	21,251	10,989
Total	525,950	346,703

11. DEPOSITS

Deposits from banks	December 31, 2009	December 31, 2008
Demand	215,341	142,378
Time	1,707,783	1,122,304
Total	1,923,124	1,264,682

Deposits from customers	December 31, 2009	December 31, 2008
Savings	32,126,732	29,645,907
Demand	2,874,504	2,113,419
Time	29,252,228	27,532,488
Deposits from Governmental Institutions	1,930,483	1,444,418
Demand	846,764	530,507
Time	1,083,719	913,911
Commercial Deposits	5,462,748	5,428,232
Demand	1,428,159	984,788
Time	4,034,589	4,443,444
Other Deposits	2,436,159	2,408,041
Demand	485,126	222,967
Time	1,951,033	2,185,074
Total	41,956,122	38,926,598

Deposit balance amounting to TRY 52,369 bears variable interest. Rest of the balance bears fixed interest. For the year ended December 31, 2008, all deposits have fixed interest.

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12. FUNDS BORROWED

	December 31, 2009	December 31, 2008
Borrowings	2,031,517	1,521,877
Funds	1,315,802	1,215,476
Total	3,347,319	2,737,353

December 31, 2009	Amount	Interest Rate	Maturity
USD denominated borrowings	343,407	Libor + %0.286 – Libor + %1.30	March 2013 – September 2038
EUR denominated borrowings	1,484,613	Euribor + %0.11 – Euribor + %0.443 6.22%	October 2014 – September 2038
TRY denominated borrowings	201,722	11.55%	June 2010 – October 2010
Other borrowings	1,775		
Total	2,031,517		

December 31, 2008	Amount	Interest Rate	Maturity
USD denominated borrowings	469,072	Libor + 0.10 Libor + 0.15	February 2009 – September 2029
EUR denominated borrowings	850,435	Euribor + 0.1 - Euribor + 0.40 6.2%	February 2009 – December 2009
TRY denominated borrowings	202,370	13.5% - 16.5%	March 2009 – December 2009
Total	1,521,877		

The amounts of funds of the Group as of December 31, 2009 and 2008 are as follows:

	December 31, 2009	December 31, 2008
Funds transferred from Emlak Bank	112,302	111,050
Establishing small manufacturing shops and sites	361,979	345,087
Organized manufacturing regions	610,505	549,254
Undersecretariat of Treasury	8,946	25,037
Housing estate fund	63,088	81,102
Borrower's fund	97,237	59,558
Other	61,745	44,388
Total	1,315,802	1,215,476

Funds borrowed include other funds obtained that are granted as loans as specified in the agreements signed between the Bank, and the ministries or the institutions that the funds belong to. In housing estate funds the risk of the loans originated belongs to the Bank, while in the remaining funds Bank has no risk on the interest and installments of the loan originated.

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12. FUNDS BORROWED (continued)

	December 31, 2009	December 31, 2008
Short term borrowings	416,475	459,918
Long term borrowings	1,615,042	1,061,959
Total	2,031,517	1,521,877

Repayment plan of borrowings is as follows:

	December 31, 2009		December 31, 2008	
	Fixed rate	Floating rate	Fixed rate	Floating rate
2009	-	-	372,317	87,601
2010	276,555	139,920	-	153
2011 and thereafter	285,543	1,327,741	231,411	723,924
Other	926	832	2,846	103,625
Total	563,024	1,468,493	606,574	915,303

Funds borrowed are unsecured.

Floating rate borrowings bear interest at rates fixed in advance for periods of 6 to 12 months.

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2009 (2008 - none).

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13. OTHER LIABILITIES AND PROVISIONS

	December 31, 2009	December 31, 2008
Other liabilities		
Cooperative deposit blockages	294,782	276,064
Taxes and dues payable	84,397	119,387
Other restricted accounts	25,831	2,787
Cheques clearance account	115,264	107,544
Import transfer orders	3,435	927
Credit card members restricted account	165,142	116,567
Payment orders	10,441	12,394
Obligations under finance leases	138	284
Unearned revenue	66,365	26,713
Resource utilization support fund	9,919	12,446
Collaterals received for derivative instruments	10,811	10,125
Debts for securities investment fund	3,309	4,202
Trade payables to vendors	4,316	3,364
Banking transactions	30,390	12,620
Other liabilities	76,345	66,804
	900,885	772,228
Provisions		
Employee termination benefits	180,431	179,779
Unused vacation provision	63,390	56,569
Provision on lawsuits	21,518	17,606
Provision on non-cash loans	43,618	48,027
Provisions for credit card bonuses	4,390	3,127
Other	42,851	27,000
	356,198	332,108
Total	1,257,083	1,104,336

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13. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits

In accordance with existing social legislation, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TRY 2,365 and TRY 2,173 at December 31, 2009 and 2008 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2009 and 2008, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to TRY 2,427 effective January 1, 2010.

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

	December 31, 2009	December 31, 2008
Discount rate for pension plan liabilities	11%	12%
Expected rates of salary increase	6.8%	7.4%
Inflation	4.8%	5.4 %

Movements in the present value of the defined benefit were as follows:

	December 31, 2009	December 31, 2008
Opening defined benefit obligation	179,779	160,512
Current service cost	10,399	10,704
Interest cost	20,934	16,940
Actuarial losses	2,875	18,869
Benefits paid	(33,556)	(27,246)
Closing defined benefit obligation, recognized in the balance sheet	180,431	179,779

Amounts recognized in profit and loss in respect of defined benefit plan are as follows:

	December 31, 2009	December 31, 2008
Current service cost	10,399	10,704
Interest cost	20,934	16,940
Amortization of unrecognized net (gain)/loss	2,875	18,869
	34,208	46,513

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14. INSURANCE TECHNICAL RESERVES

	December 31, 2009	December 31, 2008
Unearned premiums reserve	68,600	61,220
Unearned premiums reserve, reinsurers' share	(24,274)	(16,780)
	44,326	44,440
Claims provision	50,098	47,054
Claims provision, reinsurers' share	(12,325)	(11,185)
	37,773	35,869
Life mathematical reserve	53,288	37,656
Life mathematical reserve, reinsurers' share	(1,241)	(801)
	52,047	36,855
Unexpired risk reserve	1,443	-
Unexpired risk reserve re share	(907)	-
	536	-
Total	134,682	117,164

15. INCOME TAXES

Corporate Tax

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

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

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

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

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between April 1 and April 25 following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax is 15%. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

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15. INCOME TAXES (continued)

As of December 31, 2009 and 2008 advance income taxes are netted off with the current income tax liability as stated below:

	December 31, 2009	December 31, 2008
Income tax liability	557,911	252,757
Advance income taxes	(424,052)	(230,364)
	133,859	22,393

Major components of income tax expense for the years ended December 31, 2009 and 2008 are:

	December 31, 2009	December 31, 2008
Current income tax expense	557,911	249,920
Deferred income tax expense / (income)	(164,384)	13,615
Income tax expense reported in consolidated income statement	393,527	263,535

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the year ended December 31, 2009 and 2008 are as follows:

	December 31, 2009	December 31, 2008
Profit before tax	2,147,858	1,436,514
At Turkish statutory income tax rate of 20% (2007 – 20%)	429,572	287,303
Disallowed expenses	6,336	1,873
Branches exempt from taxation	(27,944)	(20,068)
Dividend	(3,618)	(2,227)
Other non-taxable items	(10,819)	(3,346)
Income tax	393,527	263,535

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15. INCOME TAXES (continued)

Deferred income tax

Deferred income tax as at December 31, 2009 and 2008 relates to the following:

	Consolidated Balance Sheet		Consolidated Income Statement	
	2009	2008	2009	2008
Deferred income tax liabilities				
Reversal of specific loan provision	52,347	51,875	(472)	(2,426)
Net book value difference of premises and equipment	5,032	2,620	(2,412)	1,513
Valuation differences of derivatives	-	11,390	11,390	(11,390)
Other	1,233	1,199	(34)	(504)
Gross deferred income tax liabilities	58,612	67,084	(8,472)	(12,807)
Deferred income tax assets				
Adjustments to portfolio reserve on loans and advances	54,814	40,218	14,596	3,047
Valuation differences of derivatives	13,146	-	13,146	(18,062)
Valuation differences of held-to-maturity securities	112,958	23,272	89,686	21,765
Employee termination benefits and vacation pay liability	48,765	47,413	1,352	5,554
Credit cards bonus payment liability	878	625	253	(475)
Other	11,157	5,311	5,846	2,596
Gross deferred income tax assets	241,718	116,839	124,879	14,425
Deferred income tax asset, net	183,106	49,755	133,351	1,618
Deferred income tax credit (charge) recognized in equity			31,033	(15,233)
Deferred income tax credit (charge) recognized in income statement, net			164,384	(13,615)

Turkish tax legislation does not allow companies to file tax returns on a consolidated basis. Therefore, deferred tax assets and liabilities of the Group are presented separately for different entities of the Group on the balance sheet as:

	December 31, 2009	December 31, 2008
Deferred tax asset	241,718	116,839
Deferred tax liability	58,612	67,084
Total	183,106	49,755

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

	December 31, 2009	December 31, 2008
Balance at January 1	49,755	48,137
Deferred income tax credit (charge) recognized in equity	(31,033)	15,233
Deferred income tax credit (charge) recognized in income statement		
Temporary differences	164,384	(13,615)
Balance at period-end	183,106	49,755

Deferred income tax liability was not established for the withholding tax that would be payable on the unremitted earnings of the foreign associate, as such are permanently reinvested.

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16. DERIVATIVES

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. The table below shows the fair values of derivative financial instruments. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	December 31, 2009			December 31, 2008		
	Fair value assets	Fair value liabilities	Notional amount In Turkish Lira equivalent	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent
Derivatives held-for-trading						
Currency swap contracts	2,962	43,826	5,788,976	-	3,940	1,311,741
Interest swap contracts	13,833	42,052	1,045,360	78,288	17,831	827,210
Other	3,733	3,078	843,681	894	475	124,206
	20,528	88,956	7,678,017	79,182	22,246	2,263,157

The majority of outstanding transactions in derivative financial instruments were with the banks and other financial institutions.

17. SHARE CAPITAL

	December 31, 2009	December 31, 2008
TRY 0.0001 (in full TRY), par value	242,085	242,085
TRY 0.0005 (in full TRY), par value	6,085	6,085
TRY 0.001 (in full TRY), par value	972,749	972,749
TRY 0.01 (in full TRY), par value	49,900,000	49,900,000
TRY 0.1 (in full TRY), par value	145,000,000	145,000,000
TRY 1 (in full TRY), par value	1,235,000,000	1,235,000,000
Total number of shares	1,431,120,919	1,431,120,919
Paid-in capital	1,250,000	1,250,000
Inflation restatement effect	1,328,184	1,328,184
Shared capital issued	2,578,184	2,578,184

As of December 31, 2009 and 2008 the Bank's historical subscribed and issued share capital was TRY 1,250,000 and TRY 1,250,000 respectively.

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18. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement in legal reserves and retained earnings are as follows:

	Legal Reserves	Retained Earnings	Total
At December 31, 2007	1,006,633	882,573	1,889,206
Transfer from retained earnings	138,570	(138,570)	-
Dividends paid	-	(875,780)	(875,780)
Other	(19)	143	124
Hedges for investments made in foreign countries	-	(34,225)	(34,225)
Net profit for the period (year)	-	1,171,537	1,171,537
At December 31, 2008	1,145,184	1,005,678	2,150,862
Transfer from retained earnings	73,097	(73,097)	-
Dividends paid	-	(281,579)	(281,579)
Other	59	751	810
Hedges for investments made in foreign countries	-	(7,305)	(7,305)
Net profit for the period (year)	-	1,753,556	1,753,556
At December 31, 2009	1,218,340	2,398,004	3,616,344

Legal Reserves

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

Dividends Paid and Proposed

In the General Assembly meeting of the Bank, dated April 14, 2009, decision was taken for profit distribution amounting to TRY 281,579 out of year 2008 profit. As of the reporting date, dividend payment has been completed. For profit distribution of year 2009, General Assembly meeting has not been held as of reporting date.

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19. EARNINGS PER SHARE

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

	Number of Shares Issued Attributable to				Total	Closing
	Opening	Cash	Transfers from Retained Earnings	Reinvestment of Dividend Payments		
2003 and before	1,331,120,919	-	-	-	-	1,331,120,919
2004	1,331,120,919	-	-	-	-	1,331,120,919
2005	1,331,120,919	-	-	-	-	1,331,120,919
2006	1,331,120,919	100,000,000	-	-	100,000,000	1,431,120,919
2007	1,431,120,919	-	-	-	-	1,431,120,919
2008	1,431,120,919	-	-	-	-	1,431,120,919
2009	1,431,120,919	-	-	-	-	1,431,120,919

There is no dilution of shares as of December 31, 2009 and 2008.

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

	December 31, 2009	December 31, 2008
Net profit / (loss) attributable to ordinary shareholders for basic earnings per share	1,754,331	1,172,979
Weighted average number of ordinary shares for basic earnings per share	1,431,120,919	1,431,120,919
Basic earnings per share	0.00123	0.00082

There have been no other transactions involving ordinary shares or potential ordinary shares as of the date of this report.

20. RELATED PARTIES

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

The immediate parent and ultimate controlling party respectively of the Group is Turkish Prime Ministry Privatization Administration. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note.

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20. RELATED PARTIES (continued)

Transactions with key management personnel:

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

As of December 31, 2009 and 2008 the Group's directors and executive officers have no outstanding personnel loans from the Parent Bank:

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

Total compensation provided to key management personnel is:

	December 31, 2009	December 31, 2008
Salaries and Short-Term Benefits	5,493	4,028

The Bank has agreements or protocols with several of its shareholders, consolidated subsidiaries and affiliates of the shareholders. The Bank's management believes that all such agreements or protocols are on terms that are at least as advantageous to the Company as would be available in transactions with third parties and the transactions are consummated at their fair values. None of these balances is secured.

Other related party transactions:

December 31, 2009	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission Income
Halk Finansal Kiralama A.Ş.	58,611	11,953	5,248	3,085	-	130
Demir Halk NV	-	74	-	-	-	971
Kredi Garanti Fonu İşletme ve Araştırma A.Ş.	-	874	17,208	-	1,140	13
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1,820	20,402	-	2,874	5
Ziraat Halk Alternatif Dağıtım Kanalları	-	-	-	-	204	-
MESBAŞ	-	-	-	-	-	-
KKB	-	-	2,270	-	485	-
BKM	-	-	-	-	475	-
Total	58,611	14,721	45,128	3,085	5,178	1,119

As of 31 December 2009, cash loans due from Halk Finansal Kiralama A.Ş. realized in currencies other than functional currency comprise cash loans USD 17,500,000 and EUR 14,975,668 and non cash loans comprise USD 49,500 and EUR 5,595,604. Non-cash loans due from Demir Halk N.V comprise USD 50,000.

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20. RELATED PARTIES (continued)

December 31, 2008	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense
Halk Finansal Kiralama A.Ş.	50,146	2,601	918	1,877	-
Demir Halk NV	30,000	200	-	-	-
Kredi Garanti Fonu İşletme ve Araştırma A.Ş.	-	165	9,080	1	2,284
KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.	-	1,080	24,592	1	2
Ziraat Halk Alternatif Dağıtım Kanalları	-	-	112	-	1
MESBAŞ	-	-	1,388	-	34
KKB	-	-	3,172	-	-
Total	80,146	4,046	39,262	1,879	2,321

As of 31 December 2008, cash loans due from Halk Finansal Kiralama A.Ş. realized in currencies other than functional currency comprise cash loans USD 5,833,334 and EUR 18,951,335 and non cash loans comprise USD 1,286,727 and EUR 320,000. Cash loans due from Demir Halk N.V comprise USD 20,000,000.

Agreements with Related Parties:

Birlik Hayat Sigorta A.Ş.:

Birlik Hayat Sigorta A.Ş. provides life insurance services in terms of individual, groups and individual accident insurance. According to agreement between the Bank and the Company, branches are assigned so as to operate as agencies of Birlik Hayat Sigorta A.Ş.

Halk Yatırım Menkul Değerler A.Ş.:

Halk Yatırım Menkul Değerler A.Ş. performs capital markets operations as public offering intermediaries, repurchase and reverse repurchase agreements, portfolio management and investment consulting. The Company is ranked in the mid-positions between more than 100 companies operating in the sector. According to the agreement between the Bank and the Company, branches are assigned so as to operate as agencies of the Company.

Kredi Garanti Fonu İşletme ve Araştırma A.Ş.:

Kredi Garanti Fonu İşletme ve Araştırma A.Ş. is supporting the Small and Medium Size Enterprises (SME's) by providing guarantee for their financing and consequently increasing the credit usage in general. According to agreement with the Bank and the Company, it is decided to establish a responsibility fund which would be the collateral of the guarantee commitments given by the Company for SME's to utilize loans from the Bank.

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21. OTHER INCOME

	2009	2008
Income from other banking services	12,730	19,090
Reversal from prior years' provision	27,910	33,568
Gain on sale of fixed assets	29,985	76,059
Rent income	5,953	4,843
Other	711	7,014
Total	77,289	140,574

22. OPERATING EXPENSES

	2009	2008
Administrative expenses	330,909	256,090
Staff costs:		
Personnel expenses	608,470	517,509
Retirement pay provision	34,208	46,513
Depreciation expense	64,159	52,638
Loss on sale of assets	4,425	8,669
Provision expense for lawsuits	-	614
Other provision expenses	42,323	42,709
Civil defense expenses	3,264	13,229
BRSA contribution expenses	10,220	8,047
Saving deposit insurance fund expenses	67,232	63,098
Taxes, duties, charges and premium expenses	33,396	33,880
Other	57,363	103,608
Total	1,255,969	1,146,604

23. FEES AND COMMISSIONS INCOME AND EXPENSES

	2009	2008
Fees and commissions income		
Banking	519,324	438,464
Brokerage	14,822	3,097
Total	534,146	441,561
Fees and commissions expenses		
Banking	(82,639)	(72,198)
Brokerage	(184)	(200)
Total	(82,823)	(72,398)

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24. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2009	December 31, 2008
Letters of guarantee issued	6,775,313	4,853,199
Letters of credit	2,243,228	1,780,112
Acceptance credits	138,242	78,257
Other	158,159	27,284
Total non-cash loans	9,314,942	6,738,852
Other commitments	3,014,455	2,215,400
Insurance commitments	216,275,901	179,783,855
Credit card limit commitments	2,820,953	1,854,559
Total	231,426,251	190,592,666

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 financial statements.

The Group also manages six investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, 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.

Letters of Guarantee Given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of December 31, 2009, according to the general requirements of the ISE, letters of guarantee amounting to TRY 37,912 and (December 31, 2008 - TRY 8,252) was obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

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

Other

Except for the 430 branch buildings, all other 225 branch premises of the Bank are leased under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

The Group is contingently liable with respect to reinsurance, which would become an actual liability to the extent that any reinsuring company fails to meet its obligations to the Group. In the opinion of management no provision is necessary for this remote contingency.

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25. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

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

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

The Group Risk Management reports to the Board of Directors through the Audit Committee and is responsible for identifying, measuring, monitoring and reporting Market, Credit and Operational Risk. Market Risk includes interest rate, foreign exchange and price risk. These risks are continually monitored and controlled according to the policies and limits set by the Board of Directors by using tools and software for monitoring and controlling.

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

Credit Risk

The Bank manages its credit risk by limiting its risk through involvement with highly credible banks and organizations. Under the risk management the bank rates each of its loans given to customers (legal or real) and requires additional guarantees from its customers with high risk ratings, or does not provide loans to such customers, or applies strategies in order to decrease the level risk of such loan. The bank's credit risk is focused in Turkey where its main operations take place. During the loan application process, limits for product and customers are taken into consideration and these limits are controlled regularly. The related loan units within the Bank are responsible for defining limits for sectors and geographical regions.

The risks and limits attributable to banks and transactions with correspondent banks are followed up on a daily basis. Off balance sheet risk concentration on individual customers and banks are also followed up daily in cooperation with the Treasury Department.

Those loans which are renewed or restructured are traced not only according to their relevant regulations, but are also traced by the risk management process where they are re-considered for their credit group and weight. With these methods, new precautions are taken and loans that have longer maturities have greater credit risks than the short-term loans.

The credibility of the debtors of the Bank is assessed periodically in accordance with the Communiqué on "Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves." Financial statements obtained for loans to be granted are audited as required by the related legislation. Loan limits are updated by the initiative of the Bank's Credit Committee and top management, as deemed necessary and in accordance with the changes in economic conditions. The Bank obtains adequate collateral for loans given and other receivables. Such collateral comprises of surety ships, mortgages on property, cash blockages and cheques.

The Bank has a policy to reduce total risk by an immediate settlement of forward and option contracts through usage of rights, fulfillments of obligations or sale due to a significant credit risk which might be encountered.

Indemnified non-cash loans are weighted in the same risk group with the non-performing loans and recorded in the follow up accounts according to their collaterals.

The percentage of the top 100 cash loan clients of the Bank to the total loan portfolio is 22.80 % (2008: 22.20 %).

The percentage of the top 100 non-cash loan clients of the Bank to the total loan portfolio is 62.46 % (2008: 60.69 %).

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The percentage of the total cash and non-cash loan balances of the top 100 clients to the total of assets and off-balance sheet items is 16.23 % (2008: 14.22 %),

Derivatives:

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

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit – which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Sectoral breakdown of cash and non-cash loans is as follows:

	December 31, 2009	
	Cash	Non-cash
Agricultural	896.280	13.084
Farming and raising livestock	871.312	10.974
Forestry	7.269	634
Fishing	17.699	1.476
Manufacturing	9.096.813	4.273.207
Mining	159.226	31.169
Production	8.353.118	3.846.729
Electric, gas and water	584.469	395.309
Construction	1.133.653	2.169.102
Services	12.561.907	2.828.587
Wholesale and retail trade	5.288.664	1.315.368
Hotel, food and beverage services	815.484	41.589
Transportation and telecommunication	1.724.534	73.093
Financial Institutions	1.803.375	984.486
Real estate and renting services	2.368.849	163.458
Self-employment services	126.528	3.052
Education services	117.178	5.248
Health and social services	317.295	242.293
Other	8.483.776	30.962
Total loans	32,172,429	9,314,942
Non-performing loans	1,667,912	-
Less: allowance for losses on loans and advances	(1,297,478)	-
Total	32,542,863	9,314,942
	December 31, 2008	
	Cash	Non-cash
Agricultural	1,007,894	67,788
Farming and raising livestock	979,925	66,271
Forestry	6,337	587
Fishing	21,632	930
Manufacturing	7,508,241	3,107,251
Mining	134,490	47,813
Production	7,260,809	2,797,814
Electric, gas and water	112,942	261,624
Construction	1,004,815	1,724,108
Services	9,420,218	1,791,366
Wholesale and retail trade	4,439,344	754,233
Hotel, food and beverage services	431,510	16,902
Transportation and telecommunication	1,620,765	60,952
Financial Institutions	1,039,880	730,425
Real estate and renting services	1,275,098	97,413
Self-employment services	137,946	3,930
Education services	61,581	3,252
Health and social services	414,094	124,259
Other	6,694,558	48,339
Total loans	25,635,726	6,738,852
Non-performing loans	1,251,362	-
Less: allowance for losses on loans and advances	(961,471)	-
Total	25,925,617	6,738,852

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit risk by types of borrowers and geographical concentration:

	Loans and advances to customers		Loans and advances to financial institutions		Marketable Securities*	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Loans according to borrowers:						
Private Sector	22.426.661	18.532.873	1.058.788	381.182	-	18.369.126
Public Sector	867.815	808.493	-	-	21.488.145	-
Banks	-	-	29.600	30.000	-	-
Retail	7.306.663	5.595.897	-	-	-	-
Share Certificates	-	-	-	-	11.903	11.328
Total	30.601.139	24.937.263	1.088.388	411.182	21.500.048	18.380.454
Information according to geographical concentration:						
Domestic	30.392.006	24.835.979	1.058.788	381.182	21.491.057	18.372.468
EU Countries	132.477	42.964	-	30.000	6.990	6.898
OECD Countries **	6.061	-	-	-	-	-
Offshore Banking Regions	-	-	-	-	-	-
USD, Canada	172	-	-	-	-	-
Other Countries	70.423	58.320	29.600	-	2.001	1.088
Total	30.601.139	24.937.263	1.088.388	411.182	21.500.048	18.380.454

(*) Includes marketable securities designated at fair value through profit or loss, available-for-sale, held-to-maturity and derivative financial assets.

(**) OECD countries other than EU countries, USA and Canada.

(***) Interest and income accruals for the loans are not included in table above.

Credit quality per class of financial assets as of December 31, 2009:

As of December 31, 2009	Neither past due nor impaired	Past due or individually impaired	Total
Receivables from Banks	1,171,909	-	1,171,909
Financial Assets at Fair Value Through Profit and Loss	35,434	-	35,434
Loans	30,317,880	643,272	30,961,152
Corporate Lending	7,714,841	51,823	7,766,664
SME Lending	14,199,491	456,717	14,656,208
Consumer Lending	6,833,769	134,732	6,968,501
Other	1,569,779	-	1,569,779
Financial Assets Available for Sale	4,891,066	-	4,891,066
Investments Held to Maturity	16,573,548	-	16,573,548

(*) Credit cards (TRY 498,943) and loans of which risk does not belong to Bank (TRY 1,082,768) are not included in table above.

(**) Loan portfolio classification is done in accordance with Basel II criterion.

(***) Financial Assets which are overdue or which have value loss are presented in terms of net values. Specific loan provision of TRY 1,297,478 belonging to loans given as of 31.12.2009 is netted off with loans extended to SMEs.

As of December 31, 2008	Neither past due nor impaired	Past due or individually impaired	Total
Receivables from Banks	2,097,965	-	2,097,965
Financial Assets at Fair Value Through Profit and Loss	47,901	-	47,901
Loans	23,947,504	571,104	24,518,608
Corporate Lending	5,913,616	31,614	5,945,230
SME Lending	12,363,584	490,376	12,853,960
Consumer Lending	5,146,298	49,076	5,195,374
Other	524,006	38	524,044
Financial Assets Available for Sale	2,468,889	-	2,468,889
Investments Held to Maturity	15,863,664	-	15,863,664

(*) Credit cards (TRY 399,995) and loans of which risk does not belong to Bank (TRY 1,007,014) are not included in table above.

(**) Loan portfolio classification is done in accordance with Basel II criterion.

(***) Financial Assets which are overdue or which have value loss are presented in terms of net values. Specific loan provision of TRY 961,471 belonging to loans given as of 31.12.2008 is netted off with loans extended to SMEs.

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25. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Aging analysis of past due but not impaired financial assets per classes of financial instruments:

As of December 31, 2009	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
Loans and Receivables				
Corporate Loans	6.232	1.771	1.059	9.062
SME Loans	140.152	46.854	27.780	214.786
Consumer Loans	20.764	20.086	8.140	48.990
Credit Cards	18.563	19.721	1.336	39.620
Total	185.711	88.432	38.315	312.458

(*) Loans for which risk does not belong to the Bank are not included.

As of December 31, 2008	Less than 30 Days	Between 31 and 60 Days	Between 61 and 90 Days	Total
Loans and Receivables				
Corporate Loans	16.071	948	-	17.019
SME Loans	119.590	52.736	28.648	200.974
Consumer Loans	2.035	526	337	2.898
Other	36.463	12.904	2.170	51.537
Total	174.159	67.114	31.155	272.428

As at December 31, 2009, the fair value of collaterals held against the past due but not yet impaired loans amounts to TRY 1,515,222 Thousand. The net value and type of the collaterals is as follows:

Collateral Type	31 December 2009	31 December 2008
Real estate mortgage	1,090,759	973,058
Salary pledge, vehicle pledge and pledge of commercial undertaking	77,369	222,369
Financial collaterals (Cash, securities pledge, etc.)	12	50
Cheque, bills	37,346	72,594
Surety ship	165,608	243,466
Other	144,128	316,532
Total	1,515,222	1,828,069

(*) The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above. Income accruals are not included in the table.

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

	31 December 2009	31 December 2008
Corporate Loans	80,853	71,582
SME Loans	66,375	71,541
Consumer Loans	10,229	160
Other	8,259	401
Total	165,716	143,684

(*) Presents loans accounted under restructured and rescheduled loan accounts.

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25. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk occurs when there is not sufficient amount of cash or cash flows to meet the cash outflow needs completely and on time. Liquidity risk may also occur when the market penetration is not enough and when the open positions cannot be closed timely at competitive prices due to barriers and break-ups at the markets.

The Bank uses domestic and foreign markets for its liquidity needs. Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (CBRT, ISE, Interbank money market, Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized balance sheets; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Bank's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

Analysis of financial liabilities by remaining contractual maturities:

As of December 31, 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	31,619,906	10,892,778	1,528,436	51,513	1,429	(214,816)	43,879,246
Funds borrowed	601,488	227,766	709,825	871,825	1,387,390	(450,975)	3,347,319
Obligations under repurchase agreements	4,914,849	593,359	263,888	-	-	(14,429)	5,757,667
Total	37,136,243	11,713,903	2,502,149	923,338	1,388,819	(680,220)	52,984,232

As of December 31, 2008	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	27,936,638	10,517,345	2,232,509	495	-	(495,707)	40,191,280
Funds borrowed	595,930	192,483	609,098	913,527	878,072	(451,757)	2,737,353
Obligations under repurchase agreements	1,762,586	639,118	-	-	-	(11,260)	2,390,444
Total	30,295,154	11,348,946	2,841,607	914,022	878,072	(958,724)	45,319,077

Analysis of Bank's derivative financial instruments according to their remaining maturities:

As of December 31, 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forward foreign currency transactions-buy	235,314	34,053	3,230	-	-	272,597
Forward foreign currency transactions-sell	235,473	34,540	3,251	-	-	273,264
Foreign currency swap transactions-buy	2,578,745	218,725	74,000	-	-	2,871,470
Foreign currency swap transactions-sell	2,609,361	231,620	76,525	-	-	2,917,506
Interest rate swap transactions-buy	-	-	-	540,200	-	540,200
Interest rate swap transactions-sell	-	-	-	505,160	-	505,160
Forward precious metal transactions-buy	-	148,799	-	-	-	148,799
Forward precious metal transactions-sell	-	149,021	-	-	-	149,021
Total	5,658,893	816,758	157,006	1,045,360	-	7,678,017

As of December 31, 2008	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forward foreign currency transactions-buy	58,623	3,095	578	-	-	62,296
Forward foreign currency transactions-sell	58,154	3,157	599	-	-	61,910
Foreign currency swap transactions-buy	510,405	167,592	-	-	-	677,997
Foreign currency swap transactions-sell	485,582	148,162	-	-	-	633,744
Interest rate swap transactions-buy	-	-	-	435,000	-	435,000
Interest rate swap transactions-sell	-	-	-	392,210	-	392,210
Total	1,112,764	322,006	1,177	870,800	-	2,263,157

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25. FINANCIAL RISK MANAGEMENT (continued)

Presentation according to remaining period at balance sheet date to contractual maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1 year to 5 years	Over 5 years	Undistributed	Total
As of December 31, 2009								
Assets								
Cash and cash equivalents	317,649	1,090,251	20,341	-	-	-	418	1,428,659
Balances with Central Bank	414,521	1,027,609	1,492,927	216,065	7,649	207	-	3,158,978
Financial assets at fair value through profit and loss	-	35	2,775	5,916	18,774	7,842	92	35,434
Investment securities available-for-sale	-	153,204	255,221	355,080	3,541,811	573,939	11,811	4,891,066
Loans and advances to customers and financial institutions	989,444	4,136,022	3,462,628	10,168,425	11,463,721	1,928,788	393,835	32,542,863
Investments securities held to maturity	-	509,371	860,470	3,940,266	8,860,114	2,403,327	-	16,573,548
Other assets	265,397	22,679	18,394	8,455	16,692	-	1,884,394	2,216,011
Total assets	1,987,011	6,939,171	6,112,756	14,694,207	23,908,761	4,914,103	2,290,550	60,846,559
Liabilities and equity								
Customers and bank deposits	5,849,894	25,659,041	10,821,039	1,496,523	51,320	1,429	-	43,879,246
Funds provided from other financial institutions(**)	1,757	36,405	119,528	393,416	446,374	1,034,037	-	2,031,517
Obligations under repurchase agreements	-	4,908,765	588,018	260,884	-	-	-	5,757,667
Other liabilities(*)	1,646,909	204,855	162,983	272,563	364,941	167,236	6,358,622	9,178,129
Total liabilities and equity	7,498,560	30,809,066	11,691,568	2,423,386	862,635	1,202,722	6,358,622	60,846,559
Liquidity gap	(5,511,549)	(23,869,895)	(5,578,812)	12,270,821	23,046,126	3,711,381	(4,068,072)	-
As of December 31, 2008								
Total assets	2,066,154	6,752,952	4,712,252	11,844,897	18,371,251	5,918,504	1,515,059	51,181,069
Total liabilities and equity	6,190,943	25,650,628	10,996,762	2,879,238	743,546	691,771	4,028,181	51,181,069
Liquidity gap	(4,124,789)	(18,897,676)	(6,284,510)	8,965,659	17,627,705	5,226,733	(2,513,122)	-

(*) Shareholders' equity is presented in the "undistributed" column.

(**) The balance consists of funds provided from other financial institutions. The remaining part of the borrowings, which is loans borrowed, is presented in other liabilities.

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25. FINANCIAL RISK MANAGEMENT (continued)

Net liquidity gap

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

Market Risk

The Group has determined its market risk activities and taken the necessary actions in accordance with the Communiqué on "Internal Control and Risk Management System" published in the Official Gazette No. 24312 on February 8, 2001.

The Group's exposure to the market risk is measured and traced by the Standard Method. A study is performed to calculate the market risk according to the "Internal Method". Results of monthly measurement of market risk and weekly measurement of foreign currency risks are reported to the Group's Management. In addition, it is included in monthly or quarterly in legal reporting. In this context, the most important part of the market risk is the interest rate risk. In addition to this daily risk analysis report, daily market risk analysis report and weekly macro-economic risk analysis reports are prepared and presented to the Management.

Currency Risk

Foreign currency risk indicates the possibilities of potential losses that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into account. Net short and long position of the Turkish Lira equivalent to each foreign currency is calculated.

The Group's exposure to foreign currency risk is limited. However, possible foreign currency risks are calculated in foreign currency risk table in the frame of the standard method weekly and monthly as to follow up the foreign currency risk periodically. In rare circumstances, when deemed necessary, foreign currency swap transactions are made with the banks.

Foreign currency sensitivity:

The Group is mainly exposed to EUR and USD currency risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the TRY against USD and EUR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	Effect on profit / loss		Effect on equity	
		Current Period	Prior Period	Current Period	Prior Period
USD	10	(3,425)	(12,733)	(45)	(45)
EURO	10	(3,280)	(8,685)	(5,641)	(9,112)
Other	10	2,703	1,433	-	-

The Group's sensitivity to foreign currency rates has not changed much during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

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25. FINANCIAL RISK MANAGEMENT (continued)

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	EURO	USD	Other FC	Total
As of December 31, 2009				
Assets				
Cash and cash equivalents & balances with Central Bank	1.269.266	26.029	3.750	1.299.045
Due from other banks and financial institutions	893.356	62.530	95.265	1.051.151
Financial assets at fair value through profit and loss	2.123	23.827	47	25.997
Investment securities available-for-sale	461.478	866.995	-	1.328.473
Loans and advances to customers and financial institutions	3.487.882	5.452.802	4.610	8.945.294
Investments in associates	127.922	-	-	127.922
Investment securities held to maturity	876.976	1.758.482	-	2.635.458
Intangible assets	-	-	-	-
Other assets	9.601	55.236	47	64.884
Total assets	7.128.604	8.245.901	103.719	15.478.224
Liabilities				
Interbank deposits	380.593	169.119	86.883	636.595
Foreign currency deposits	7.674.327	5.915.910	288.243	13.878.480
Obligations under repurchase agreements	-	547.976	-	547.976
Funds provided from other financial institutions	1.485.000	343.905	890	1.829.795
Other liabilities	37.056	132.373	3.554	172.983
Total liabilities	9,576,976	7,109,283	379,570	17,065,829
Net on balance sheet position	(2,448,372)	1,136,618	(275,851)	(1,587,605)
Net off balance sheet position	2,314,355	(1,287,660)	265,913	1,292,608
Derivative financial assets	2,565,883	734,540	526,631	3,827,054
Derivative financial liabilities	251,528	2,022,200	260,718	2,534,446
Non-cash loans	1,803,456	3,730,247	58,274	5,591,977
As of December 31, 2008				
Total assets	7,597,699	6,286,929	113,626	13,998,254
Total liabilities	8,318,780	6,922,653	111,573	15,353,006
Net on balance sheet position	(721,081)	(635,724)	2,053	(1,354,752)
Net off balance sheet position	480,235	596,127	10,966	1,087,328
Derivative financial assets	481,701	644,562	46,710	1,172,973
Derivative financial liabilities	1,466	48,435	35,744	85,645
Non-cash loans	1,279,756	2,855,520	58,908	4,194,184

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25. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Bank. Interest rate risk is calculated by including assets and liabilities and the general and specific interest rate risk tables within the standard method and it is taken into consideration as a part of the general market risk in the computation of Capital Adequacy Standard Ratio. The major priority of the Bank's risk management is to prevent from the effects of the interest rate volatility. All types of sensitivity analysis performed within the context is calculated by the risk management group and reported to the Asset-Liability Committee.

Work is performed regarding the interest income according to the macro economical indicators in the Bank's budget estimations and the effects of the market interest rate fluctuations on the financial position and cash flow are eliminated at the maximum level possible by means of target revisions. All resource costs of the Bank such as; TRY deposits, repurchase agreements, FC deposits are determined with the approval of the executive member appointed by the Board of Directors. Since the Bank prohibits interest mismatches and imposes limits, the Bank is not subject to a material interest rate risk exposure.

Interest rate sensitivity:

If interest rates were increased by 600 base points in TRY and 200 base points for FC and all other variables were held constant, the Group's:

- Profit for the year would decrease by TRY 345,482. The major factor in this change is due to the assets of the Group with variable interest rates (2008: TRY 252,907 decrease).
- The Shareholders' equity would decrease by TRY 271,810. The major factor in this change is due to the market value of government bonds held in available for sale portfolio (2008: TRY 80,214 decrease).
- Through these calculations, the value loss related to available for sale portfolio is presented in shareholder's equity instead of profit and loss.

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25. FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity based on repricing dates:

	As of December 31, 2009					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	
Assets						
Cash and cash equivalents	1,090,669	20,341	-	-	-	317,649
Balances with Central Bank	2,744,457	-	-	-	-	414,521
Financial assets at fair value through profit and loss	35	5,440	5,916	16,109	7,842	92
Investment securities available-for-sale	504,344	925,235	501,449	2,444,040	504,187	11,811
Loans and advances to customers and financial institutions	11,259,035	5,282,456	7,180,659	6,484,221	946,682	1,389,810
Investment securities held to maturity	5,260,540	6,029,805	1,606,675	1,978,200	1,698,328	-
Other assets	642	-	-	13,828	-	2,201,541
Total assets	20,859,722	12,263,277	9,294,699	10,936,398	3,157,039	4,335,424
Liabilities and equity						
Customer and bank deposits	25,659,043	10,821,039	1,548,256	1,014	-	5,849,894
Obligations under repurchase agreements	4,908,765	588,018	260,884	-	-	-
Funds provided from other financial institutions (**)	39,283	1,091,357	831,924	20,318	2,419	46,216
Other liabilities(*)	1,056,234	63,127	95,090	42,052	123,125	7,798,501
Total liabilities and equity	31,663,325	12,563,541	2,736,154	63,384	125,544	13,694,611
On balance sheet interest sensitivity gap - Long	-	-	6,558,545	10,873,014	3,031,495	-
On balance sheet interest sensitivity gap - Short	(10,803,603)	(300,264)	-	-	-	(9,359,187)
Off balance sheet interest sensitivity gap - Long	59,200	481,000	-	(505,160)	-	-
Off balance sheet interest sensitivity gap - Short	-	180,736	6,558,545	10,367,854	3,031,495	(9,359,187)
Total position	(10,744,403)	180,736	6,558,545	10,367,854	3,031,495	(9,359,187)
As of December 2008	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest Bearing
Total assets	19,975,982	10,588,852	8,288,276	6,172,119	3,301,392	2,854,448
Total liabilities and equity	26,722,612	11,673,155	2,784,515	103,626	128,781	9,768,380

(*) Shareholders' equity is presented in the "non-interest bearing" column.

(**) The balance consists of funds provided from other financial institutions. The remaining part of the borrowings, which is loans borrowed, is presented in other liabilities.

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25. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy

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

Fair Value of financial instruments

The Group considers that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

	Carrying amount		Fair value	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Financial assets				
Loans and advances	32,172,429	25,635,726	32,268,409	25,689,955
Investment securities available-for-sale	4,891,066	2,468,889	4,891,066	2,468,889
Investment securities held-to-maturity	16,573,548	15,863,664	16,948,914	15,880,539
	<u>53,637,043</u>	<u>44,258,170</u>	<u>54,108,389</u>	<u>44,039,383</u>
Financial liabilities				
Deposits from other banks	1,923,124	1,264,682	1,923,124	1,264,682
Customers' deposits	41,956,122	38,926,598	42,002,831	38,908,676
Other money market deposits	5,757,667	2,390,444	5,757,667	2,390,444
Funds borrowed	3,347,319	2,737,353	3,347,319	2,737,353
	<u>52,984,232</u>	<u>45,319,077</u>	<u>53,030,941</u>	<u>45,301,155</u>

(*) Net of follow-up loans has not been included in the table above.

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

- Level 1: The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

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25. FINANCIAL RISK MANAGEMENT (continued)

December 31, 2009	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at fair value through profit and loss	55,962	-	-	55,962
Debt instruments	35,434	-	-	35,434
Derivatives held-for-trading	20,528	-	-	20,528
Available-for-sale financial assets	4,879,447	11,619	-	4,891,066
Debt instruments	4,879,447	-	-	4,879,447
Available-for-sale securities (*)	-	11,619	-	11,619
Loans and advances	-	32,268,409	-	32,268,409
Held to maturity investments	-	16,948,914	-	16,948,914
Debt instruments	-	16,948,914	-	16,948,914
Financial Liabilities				
Deposits from other banks and funds borrowed	-	5,270,443	-	5,270,443
Deposits from customers	-	42,002,831	-	42,002,831
Other money market operations	-	5,757,667	-	5,757,667
Financial liabilities at fair value through profit and loss	88,956	-	-	88,956
Derivatives held-for-trading	88,956	-	-	88,956
December 31, 2008				
Financial Assets				
Financial assets at fair value through profit and loss	127,083	-	-	127,083
Debt instruments	47,901	-	-	47,901
Derivatives held-for-trading	79,182	-	-	79,182
Available-for-sale financial assets	2,457,559	-	-	2,468,889
Debt instruments	2,457,559	-	-	2,457,559
Available-for-sale securities (*)	-	11,330	-	11,330
Loans and advances	-	25,689,955	-	25,689,955
Held to maturity investments	-	15,880,539	-	15,880,539
Debt instruments	-	15,880,539	-	15,880,539
Financial Liabilities				
Deposits from banks and funds borrowed	-	4,002,035	-	4,002,035
Deposits from customers	-	38,908,676	-	38,908,676
Other money market operations	-	2,390,444	-	2,390,444
Financial liabilities at fair value through profit and loss	22,246	-	-	22,246
Derivatives held-for-trading	22,246	-	-	22,246

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

26. SUBSEQUENT EVENTS

None.