KPMG

Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements
As at and For the Year Ended
31 December 2010
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

29 April 2011

This report contains 1 page of independent auditors' report and 81 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye Halk Bankası Anonim Şirketi and its subsidiaries

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Independent Auditors' Report

To the Board of Directors of
Türkiye Halk Bankası Anonim Şirketi,

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Halk Bankası AŞ and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were audited by another auditor, whose report dated 10 March 2010, expressed an unqualified opinion.

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Istanbul, Turkey
29 April 2011

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Financial Position
As at 31 December 2010
(Currency-In thousands of Turkish Lira)

	Notes	**31 December 2010**	**31 December 2009**
Assets			
Cash on hand	*6*	379.297	256.746
Due from banks	*8*	1.228.793	1.172.112
Balances with Central Bank	*7*	2.949.703	2.303.561
Reserve deposits at Central Bank	*7*	1.320.565	855.417
Financial assets at fair value through profit or loss		89.987	55.962
- Trading securities	*9*	*55.680*	*35.434*
- Derivative financial instruments	*23*	*34.307*	*20.528*
Loans and advances	*10*	44.385.099	32.542.863
Insurance premium receivables	*11*	94.762	79.117
Investment securities:		20.251.411	21.471.903
- Available-for-sale investment securities	*9*	*7.501.571*	*4.898.355*
- Held-to-maturity investment securities	*9*	*12.749.840*	*16.573.548*
Investment in equity-accounted investees	*12*	183.687	184.176
Property and equipment	*13*	1.244.407	1.156.972
Intangible assets	*14*	18.655	12.089
Non-current assets held for sale	*15*	98.131	84.091
Deferred tax assets	*21*	201.279	183.106
Other assets	*16*	704.243	525.950
Total assets		**73.150.019**	**60.884.065**
Liabilities			
Deposits from banks	*17*	3.223.828	1.923.124
Deposits from customers	*17*	51.330.587	41.956.122
Obligations under repurchase agreements	*18*	3.155.055	5.757.667
Loan and advances from banks	*19*	5.121.319	3.347.319
Interbank money market borrowings	*20*	125.768	19.422
Derivative financial instruments	*23*	39.151	88.956
Insurance contract liabilities	*11*	278.843	184.868
Provisions	*22*	405.055	356.198
Income tax payables	*21*	188.812	133.859
Other liabilities	*22*	1.380.090	898.885
Total liabilities		**65.248.508**	**54.666.420**
EQUITY			
Share capital	*24*	2.578.184	2.578.184
Reserves	*25*	733.879	531.626
Retained earnings		4.582.964	3.101.032
Total equity attributable to equity holders of the Bank		**7.895.027**	**6.210.842**
Non-controlling interest		6.484	6.803
Total liabilities and equity		**73.150.019**	**60.884.065**

The notes on pages 6 to 81 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

(Currency-In thousands of Turkish Lira)

	Notes	**2010**	**2009**
Interest income:			
-Interest income on loans		4.256.240	4.225.937
-Interest income on securities		2.019.832	2.451.134
-Interest income on deposits at banks		73.647	126.787
-Interest income on other money market placements		263	4.498
-Other interest income		13.953	20.843
		6.363.935	**6.829.199**
Interest expense:			
-Interest expense on deposits		(2.763.395)	(3.137.513)
-Interest expense on other money market deposits		(272.513)	(331.285)
-Interest expense on borrowings		(66.207)	(141.352)
-Other interest expense		(49.660)	(90.002)
		(3.151.775)	**(3.700.152)**
Net interest income		**3.212.160**	**3.129.047**
Fees and commission income	*30*	615.500	534.146
Fees and commission expenses	*30*	(105.525)	(82.823)
Net fee and commission income		**509.975**	**451.323**
Net trading income from securities		221.758	135.063
Net trading loss from derivative financial instruments	*23*	(72.840)	(75.805)
Foreign exchange losses, net		(15.563)	(41.107)
Net impairment losses on financial assets	*9,10,22*	(133.856)	(233.921)
Income from insurance operations	*11*	210.810	135.848
Cost of insurance operations	*21*	(134.588)	(83.515)
Dividend income		1.223	6.595
Other operating income	*28*	163.259	77.289
Other operating expenses	*29*	(1.523.501)	(1.357.259)
Operating profit		**2.438.837**	**2.143.558**
Share of profit of equity-accounted investees		13.318	4.300
Profit before income tax		**2.452.155**	**2.147.858**
Income tax expense	*21*	(506.804)	(393.527)
Profit for the period		**1.945.351**	**1.754.331**
Other comprehensive income, net of income tax			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		118.444	210.232
Net amount transferred to profit or loss		(31.486)	(58.272)
Foreign currency translation differences		69	709
Net gain on hedge of net investment in foreign operation, net of tax		10.087	1.141
Other comprehensive income for the period, net of tax		**97.114**	**153.810**
Total comprehensive income for the period		**2.042.465**	**1.908.141**

The notes on pages 6 to 81 are an integral part of these consolidated financial statements.

(Currency-In thousands of Turkish Lira)

	Notes	**2010**	**2009**
Profit attributable to:			
Equity holders of the Bank		1.944.755	1.753.556
Non-controlling interest		596	775
Profit for the period		**1.945.351**	**1.754.331**
Total comprehensive income attributable to:			
Equity holders of the Bank		2.041.912	1.907.353
Non-controlling interest		553	788
Total comprehensive income for the period		**2.042.465**	**1.908.141**
Basic and diluted earnings per share (full TL per share)	*26*	**1,5558**	**1,4028**

The notes on pages 6 to 81 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2010
(Currency-In thousands of Turkish Lira)

		Reserves						
	Share capital	Fair value reserve	Hedging reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2009	**2.578.184**	**(126.255)**	**(18.533)**	**442.156**	**1.708.706**	**4.584.258**	**6.944**	**4.591.202**
Total comprehensive income for the period								
Net profit of the period	**-**	**-**	**-**	**-**	**1.753.556**	**1.753.556**	**775**	**1.754.331**
Other comprehensive income, net of tax	-	-	-	-	-	-	-	-
Fair value reserve (available-for-sale financial assets):	-	-	-	-	-	-	-	-
Net change in fair value	-	210.232		-	-	210.232	-	210.232
Net amount transferred to profit or loss	-	(58.285)		-	-	(58.285)	13	(58.272)
Foreign currency translation differences	-	709	-	-	-	709	-	709
Net gain / (loss) on hedge of net investment in foreign operations	-	-	8.446	-	(7.305)	1.141	-	1.141
Total other comprehensive income	**-**	**152.656**	**8.446**	**-**	**(7.305)**	**153.797**	**13**	**153.810**
Total comprehensive income for the period	**-**	**152.656**	**8.446**	**-**	**1.746.251**	**1.907.353**	**788**	**1.908.141**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	-	-	-	73.097	(73.097)	-	-	-
Dividends to equity holders	-	-	-	-	(281.579)	(281.579)	(78)	(281.657)
Capital increase	-	-	-	-	-	-	(41)	(41)
Changes in non-controlling interest	-	-	-	59	751	810	(810)	-
Balances at 31 December 2009	**2.578.184**	**26.401**	**(10.087)**	**515.312**	**3.101.032**	**6.210.842**	**6.803**	**6.217.645**
Balances at 1 January 2010	**2.578.184**	**26.401**	**(10.087)**	**515.312**	**3.101.032**	**6.210.842**	**6.803**	**6.217.645**
Total comprehensive income for the period								
Net profit of the period	-	-	-	-	1.944.755	1.944.755	596	**1.945.351**
Other comprehensive income, net of tax								
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	-	118.487	-	-	-	118.487	(43)	118.444
Net amount transferred to profit or loss	-	(31.486)	-	-	-	(31.486)	-	(31.486)
Foreign currency translation differences	-	69	-	-	-	69	-	69
Net gain / (loss) on hedge of net investment in foreign operations	-	-	10.087	-	-	10.087	-	10.087
Total other comprehensive income	**-**	**87.070**	**10.087**	**-**	**-**	**97.157**	**(43)**	**97.114**
Total comprehensive income for the period	**-**	**87.070**	**10.087**	**-**	**1.944.755**	**2.041.912**	**553**	**2.042.465**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	-	-	-	105.002	(105.002)	-	-	-
Dividends to equity holders	-	-	-	-	(357.821)	(357.821)	-	(357.821)
Changes in non-controlling interest	-	59	-	35	-	94	(872)	(778)
Balances at 31 December 2010	**2.578.184**	**113.530**	**-**	**620.349**	**4.582.964**	**7.895.027**	**6.484**	**7.901.511**

The notes on pages 6 to 81 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2010

(Currency-In thousands of Turkish Lira)

	Notes	**2010**	**2009**
Cash flows from operating activities			
Profit for the period		1.945.351	1.754.331
Adjustments for:			
Depreciation and amortisation	*29*	77.707	64.159
Net impairment loss on loans and advances	*10*	288.707	499.398
Net interest income		(3.212.160)	(3.129.047)
Dividend income		(1.223)	(6.595)
Provision for employee termination benefits	*29*	50.472	34.208
Impairment losses on property and equipment	*13*	5.749	9.055
Net gain on sale of property and equipment	*28,29*	(61.733)	(25.560)
Share of profit of equity-accounted investees		(13.318)	(4.300)
Income tax expense	*21*	506.804	393.527
		(413.644)	**(410.824)**
Change in financial assets at fair value through profit or loss		(19.427)	11.496
Change in loans and advances		(11.983.097)	(7.323.651)
Change in other assets		(495.804)	(301.991)
Change in deposits from banks		1.304.598	659.195
Change in deposits from customers		9.336.559	3.329.219
Change in loans and advances from banks		1.783.419	520.733
Change in other liabilities		(2.418.880)	3.558.592
Interest received		6.564.846	7.364.446
Dividends received		1.215	2.679
Interest paid		(3.104.103)	(3.918.818)
Income tax paid		(562.814)	(443.900)
Employee termination benefits paid	*22*	(23.699)	(33.555)
Net cash provided from / (used in) operating activities		**(30.831)**	**3.013.621**
Cash flows from investing activities			
Acquisitions of available-for-sale investment securities		(8.872.143)	(7.177.505)
Proceeds from sale of available-for-sale investment securities		6.431.573	5.974.917
Acquisitions of held to maturity investment securities		(2.624.557)	(3.721.412)
Proceeds from sale of held to maturity investment securities		6.408.587	1.982.864
Acquisitions of investments in equity participations		(944)	(1.989)
Acquisitions of property and equipment	*13*	(328.588)	(343.324)
Proceeds from sale of property and equipment		134.226	91.378
Acquisitions of intangible assets	*14*	(10.930)	(11.976)
Net cash provided from / (used in) investing activities		**1.137.224**	**(3.207.047)**
Cash flows from financing activities			
Dividends paid	*25*	(357.821)	(281.579)
Net cash provided from financing activities		**(357.821)**	**(281.579)**
Net increase / (decrease) in cash and cash equivalents		748.572	(475.005)
Cash and cash equivalents at 1 January	*31*	3.732.344	4.245.759
Effect of change rate fluctuations an cash held		76.689	(38.410)
Cash and cash equivalents at 31 December	*31*	**4.557.605**	**3.732.344**

The notes on pages 6 to 81 are an integral part of these consolidated financial statements.

1. Activities of the Bank and the Group

Türkiye Halk Bankası AŞ (the "Bank") was incorporated in Turkey in 1933 as a state economic enterprise established under law no. 2284. As of 31 December 2010, the Bank operates 709 branches, including 705 domestic branches, 3 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 AŞ and subsidiaries (the "Group") consist of banking, securities brokerage and insurance services provided primarily to local customers. The consolidated financial statements of the Group include the accounts of the Bank, Halk Sigorta AŞ, Halk Hayat ve Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ and Halk Gayrimenkul Yatırım Ortaklığı AŞ.

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 the 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 the Bank's shares have been traded on Istanbul Stock Exchange (ISE) as of 10 May 2007.

In November 2004, the Bank merged with Pamukbank Türk Anonim Şirketi ("Pamukbank"), another state owned bank and integrated its operations and IT systems. In 2006, the Bank acquired a controlling share ownership in three companies - Halk Sigorta AŞ, a property, health and casualty insurance company, Halk Hayat Emeklilik AŞ, a life insurance company, Halk Yatırım Menkul Değerler AŞ, an equity brokerage services company.

The Bank established Halk Gayrimenkul Yatırım Ortaklığı AŞ in 2010. Halk Gayrimenkul Yatırım Ortaklığı AŞ's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. Its main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the investment properties, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates.

2. Statement of compliance

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

The consolidated financial statements were authorised for issue by the Board of Directors on 29 April 2011.

3. Basis of preparation

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

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose and available-for-sale investment securities whose fair value can reliably be measured.

3. Basis of preparation (continued)

3.1. Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and in the measurement of income and expenses in the statement of comprehensive income and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements is included in the following notes:

Note 10 – loans and advances
Note 11 – insurance receivables and insurance contract liabilities
Note 12 – investment in equity-accounted investees
Notes 13 and 14 – measurement of property and equipment and intangible assets
Note 21 – income taxes
Note 22 – other liabilities and provisions
Note 33 – financial risk management

3.2. Changes in accounting policies

Effective 1 January 2010 the Group has changed its accounting policies in the following areas:

Presentation of financial statements

The Group has presented insurance contract liabilities in gross amounts, which were presented net of reinsurer shares in the previous periods. In accordance with this amendment, reinsurer share of reserve for unearned insurance premiums as at 31 December 2009 amounting to TL 37.506 has been added to the insurance contract liabilities. Receivables from insurance activities have also been increased by TL 37.506 as at 31 December 2009. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. Basis of preparation (continued)

3.3. Functional and presentation currency

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira (TL). The functional currency of the Bank's foreign associates is the local currency. Until 31 December 2005, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL 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.

4. Significant accounting policies

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

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

4.1. Basis of consolidation

The consolidated financial statements include the accounts of the Bank and the majority-owned subsidiaries.

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 Bank, using consistent accounting policies.

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

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Subsidiaries

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

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

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

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

	Place of incorporation	Direct ownership		Indirect ownership	
		2010	**2009**	**2010**	**2009**
Halk Sigorta AŞ	Istanbul	89.18%	89.18%	89.18%	89.18%
Halk Hayat ve Emeklilik AŞ	Istanbul	94.40%	94.40%	99.46%	98.86%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99.94%	99.96%	99.94%	99.96%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	99.84%	-	99.99%	-

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.1. Basis of consolidation (continued)

Investments in associates (equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognised initially at cost. The cost of the investment includes transaction costs.

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

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

For TL associates and subsidiaries, the additions of funds (such as revaluation fund) are deducted from the cost of the associate and subsidiary (the additions of these funds to the capital are permitted for statutory purposes) and later, these costs are indexed based on the capital increase payment dates until 31 December 2005.

The Group has terminated the application of net investment hedge for its foreign currency associate Demir-Halk Bank NV, operating in Netherlands and transferred the valuation difference due to net investment hedge transaction as hedging funds followed under equity to profit and loss.

The equity-accounted of the Group as of 31 December are as follows:

	Place of incorporation	Shareholding interest	
		2010	**2009**
Demir-Halk Bank NV	Rotterdam	30.00%	30.00%
Halk Finansal Kiralama AŞ	Istanbul	47.75%	47.75%
Kobi Girişim Sermayesi Yatırım OrtaklığıAŞ	Ankara	31.47%	31.47%
Finansal Teknoloji Hizmetleri AŞ	Ankara	24.00%	24.00%
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	Istanbul	24.00%	24.00%

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.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 31 December foreign currency assets and liabilities of the Group are mainly in US Dollar ("USD") and Euro. The TL/USD and TL/Euro exchange rates as at 31 December are as follows:

	2010		2009	
	Period end	**Average**	**Period end**	**Average**
TL / USD	1,525	1,5033	1,4800	1,4865
TL / Euro	2,0421	1,9863	2,1228	2,1678

4. Significant accounting policies (continued)

4.3 Interest

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

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

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

- interest on financial assets and liabilities at amortised cost calculated on an effective interest rate basis,
- interest on available-for-sale investment securities calculated on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

4.4 Fees and commission

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

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

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

4.5 Net trading income

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

4.6 Dividends

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

4. Significant accounting policies (continued)

4.7 Income tax expense

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, obligations under repurchase agreements, loans and advances from banks and interbank money market borrowings on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date on which the Group commits to purchase or sell the asset. 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 asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged or cancelled or expired.

Offsetting

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

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

Amortised cost measurement

Amortised 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 amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Fair value measurement

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

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

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, the Group established fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses. 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.

Identification and measurement of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements 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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank 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;
- becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at amortised cost (continued)

- 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 amortised 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 realised 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 recognised in profit or loss.

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 recognised 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 (ie, 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 Group 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 profit or loss.

4. Significant accounting policies (continued)

4.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at fair value

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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through statement of profit or loss.

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 recognised in profit or loss.

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

4.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

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

4.11 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. 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 amortised cost using the effective interest method less any impairment in value. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest earned on such loans and receivables is reported as interest income.

4.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

4. Significant accounting policies (continued)

4.12 Investment securities (continued)

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. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2010 and 2009.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

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 amortised cost. Any previous gain or losses on those assets that have been recognised in equity are amortised over the remaining life of the held-to-maturity investments using the effective interest method.

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 as another category of financial assets. After initial recognition, available for sale financial assets are measured at fair value. Quoted equity securities and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost.

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

Gains or losses on remeasurement to fair value are recognised as a separate component of equity until the instrument is derecognised, or until the instrument is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss, however interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

4. Significant accounting policies (continued)

4.13 Repurchase transactions

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

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

4.14 Property and equipment

Recognition and measurement

Items of property and equipment acquired before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated depreciation and impairment losses, and items of property and equipment acquired after 1 January 2006 are carried at acquisition cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

The carrying values of property 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 recognised in profit or loss.

Subsequent costs

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

Depreciation

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

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

Buildings	50 years
Other movable properties	2 – 5 years
Assets held under financial leases	4 – 5 years
Safe-deposit boxes	50 years

4. Significant accounting policies (continued)

4.14 Property and equipment (continued)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

Derecognition

An item of property and equipment is derecognised 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 profit or loss in the year the asset is derecognised.

4.15 Intangible assets

Intangible assets acquired

Intangible assets acquired separately before 1 January 2006 are carried at restated cost for the effects of inflation in TL units current at 31 December 2005 less accumulated amortisation and impairment losses, and items of intangible assets acquired after 1 January 2006 are carried at acquisition cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 3 and 5 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years).

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

4. Significant accounting policies (continued)

4.15 Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development expenditures previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis in five years.

4.16 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 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 carrying value and fair value less costs to sell.

4.17 Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that one not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

4. Significant accounting policies (continued)

4.17 Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

4.18 Leases

The Group as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Finance leases

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

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

The Group as the lessor

Operating leases

Assets leased out under operating leases are included in property and equipment in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

4. Significant accounting policies (continued)

4.19 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities related with non-controlling interest shares put options reflected to financial statements in conformity with their discounted value with their own redemption plan. Discounted value of the financial liability which is the subject of the put option is assumed as the fair value of the financial asset.

Other financial liabilities

Other financial liabilities, including borrowings and deposits are the Group's sources of debt funding.

Borrowings and deposits are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

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

4.20 Provisions

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

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

4. Significant accounting policies (continued)

4.21 Employee benefits

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 profit or loss.

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 22 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2010 is TL 207.204 (31 December 2009: TL 180.431).

In addition to the employee termination benefits, the Group maintains privately administrated pension plans, Pamukbank TAŞ Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı ("Pamukbank Pension Fund") and T.C. Ziraat Bankası and T. Halk Bankası AŞ Mensupları Emekli ve Yardım Sandığı Vakfı ("Ziraat-Halk Pension Fund"). 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.

The Group recognises actuarial gains or losses in profit or loss.

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 9,8% and inclusion of the present value of future employee contributions in plan assets. Based on the results of the actuarial report prepared as of 31 December 2010, no technical deficit has been reported (31 December 2009: None).

Short-term benefits

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

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

4. Significant accounting policies (continued)

4.22 Insurance businesses

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in 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, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisition costs, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under income from insurance operations in the accompanying consolidated statement of income.

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under other liabilities and provisions. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

4. Significant accounting policies (continued)

4.22 Insurance businesses (continued)

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under insurance contract liabilities in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognised directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

4. Significant accounting policies (continued)

4.23 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank.

4.24 Events after the reporting period

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

4.25 Segment reporting

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

4.26 Adoption of new and revised IFRSs

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial statements of the Group, with the exception of:

IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost of fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

4. Significant accounting policies (continued)

4.26 Adoption of new and revised IFRSs (continued)

IFRS 7 Financial Instruments is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments. The amendment is effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 Customer Loyalty Programmes - Fair Value of Award Credit amended to state that the fair value of award credits takes into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 34 Interim Financial Reporting - Significant Events and Transactions; a number of examples have been added to the list of events or transactions that require disclosure under IAS 34. The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 27 Consolidated and Separate Financial Statements – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31; consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures (as a result of prior amendments to IAS 27) to be applied prospectively, except for the amendments to IAS 28 and IAS 31 that solely are the result of renumbering in IAS 27 (2008). The amendment is effective for annual periods beginning on or after 1 January 2011.

IASB issued interpretations about prepayments of a minimum funding (interpretations for IFRIC 14) on 26 November 2009. The amendments to IFRIC 14, which is itself an interpretation of IAS 19 applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment, Prepayments of a Minimum Funding Requirement, has an effective date for mandatory adoption of 1 January 2011, with early adoption permitted.

The revised IAS 24 Related Party Disclosures amends the definition of a related party and modifies certain related party disclosure requirements government-related entities. The main changes to IAS 24 are:

- A partial exemption from the disclosure requirements for transactions between a government-controlled reporting entity and that government or other entities controlled by that government; and
- Amendments to the definition of a related party.

IASB agreed that the partial exemption from the disclosure requirements should be required to be made retrospectively, because this should result in a reduction of "clutter" in the footnotes and an identification of better information about the nature and extent of significant transactions with the government.

In addition, IASB agreed that the definition of a related party should also be applied retrospectively from the effective date.

(Currency - In thousands of Turkish Lira)

5. Operating segments

The Group has seven reportable segments, corporate, commercial, entrepreneur, treasury/investment, insurance and securities brokerage and real-estate investment trust which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis.

2010	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment**	**Insurance**	**Securities brokerage**	**Real-estate inv. trust**	**Undist-ributed**	**Eliminations**	**Group**
Interest income	772.010	492.956	6.074.668	5.177.651	6.606	6.729	-	-	(6.166.685)	6.363.935
Interest expense	(610.179)	(337.364)	(4.369.057)	(4.000.553)	(140)	(1.167)	-	-	6.166.685	(3.151.775)
Net interest income	**161.831**	**155.592**	**1.705.611**	**1.177.098**	**6.466**	**5.562**	**-**	**-**	**-**	**3.212.160**
Net fee and commission income	41.503	37.163	419.926	27.272	(34.843)	18.954	-	-	-	509.975
Net trading income from securities	-	-	-	221.661		97	-	-	-	221.758
Net trading loss from derivative transactions	-	-	-	(72.856)	16	-	-	-	-	(72.840)
Income from insurance operations	-	-	-	-	211.651	-	-	-	(841)	210.810
Foreign exchange gain/(losses), net	-	-	-	(34.049)	(162)	-	-	-	18.648	(15.563)
Cost of insurance operations			-	(134.588)						(134.588)
Dividend income	-	-	-	55.935	2.197	176	-	-	(57.085)	1.223
Other income	2.343	27.271	253.740	64.392	-	947	2.441	-	(174.557)	176.577
Net impairment losses on loans and advances	(929)	(6.397)	(74.582)	(51.912)	-	(36)	-	-	-	(133.856)
Other expenses	(11.644)	(45.604)	(706.439)	(590.192)	(152.048)	(12.610)	(772)	-	(4.192)	(1.523.501)
Profit from before income tax	**193.104**	**168.025**	**1.598.256**	**662.761**	**33.277**	**13.090**	**1.669**	**-**	**(218.027)**	**2.452.155**
Income tax expense	-	-	-	-	(8.086)	(2.741)	-	(495.977)	-	(506.804)
Profit for the period	**193.104**	**168.025**	**1.598.256**	**662.761**	**25.191**	**10.349**	**1.669**	**(495.977)**	**(218.027)**	**1.945.351**

(Currency - In thousands of Turkish Lira)

5. Operating segments (continued)

2009	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment**	**Insurance**	**Securities brokerage**	**Undist-ributed**	**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**
Net fee and commission income	30.276	27.196	369.289	33.829	-	14.638	-	(23.905)	451.323
Net trading income from securities	-	-	-	135.063	-	-	-	-	135.063
Net trading loss from derivative transactions	-	-	-	(75.805)	-	-	-	-	(75.805)
Income from insurance operations	-	-	-	(43.404)	204	2.093	-	-	(41.107)
Foreign exchange gain/(losses), net	-	-	-	-	149.696	-	-	(13.848)	135.848
Cost of insurance operations	-	-	-	-	(107.420)	-	-	23.905	(83.515)
Dividend income	-	-	-	10.774	18	2	-	(4.199)	6.595
Other income	3.838	634	-	77.896	64	456	-	(1.299)	81.589
Net impairment losses on loans and advances	(2.629)	(54.388)	(83.855)	(260.759)	-	-	-	-	(233.921)
Other expenses	(11.798)	(37.968)	(669.335)	(615.926)	(27.287)	(10.139)	-	15.194	(1.357.259)
Profit from before income tax	**179.016**	**90.216**	**1.307.677**	**532.437**	**31.583**	**11.081**	**-**	**(4.152)**	**2.147.858**
Income tax expense	-	-	-	-	(6.984)	(2.197)	(384.346)	-	(393.527)
Profit for the period	**179.016**	**90.216**	**1.307.677**	**532.437**	**24.599**	**8.884**	**(384.346)**	**(4.152)**	**1.754.331**

(Currency - In thousands of Turkish Lira)

5. Operating segments (continued)

The segment assets and liabilities as at 31 December 2010 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment[2]	Insurance	Securities brokerage	Undistributed[1]	Eliminations	Group
Segment assets	7.015.241	5.858.411	28.214.424	30.051.735	431.855	188.727	1.623.075	(417.136)	72.966.332
Investment in equity-accounted investees	-	-	-	-	-	-	220.388	(36.701)	183.687
Total assets	**7.015.241**	**5.858.411**	**28.214.424**	**30.051.735**	**431.855**	**188.727**	**1.843.463**	**(453.837)**	**73.150.019**
Segment liabilities	7.256.397	2.768.067	40.942.573	14.078.527	296.821	137.597	-	(231.474)	65.248.508
Total liabilities	**7.256.397**	**2.768.067**	**40.942.573**	**14.078.527**	**296.821**	**137.597**	**-**	**(231.474)**	**65.248.508**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Undistributed” column.
(2) Halk Gayrimenkul Yatırım Ortaklığı AŞ balances are presented under Treasury/Investment column.

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

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment	Insurance	Securities brokerage	Undistributed[1]	Eliminations	Group
Segment assets	4.263.028	3.184.256	21.393.121	30.108.577	318.087	71.633	1.436.258	(75.071)	60.699.889
Investment in equity-accounted investees	-	-	-	-	-	-	265.924	(81.748)	184.176
Total assets	**4.263.028**	**3.184.256**	**21.393.121**	**30.108.577**	**318.087**	**71.633**	**1.702.182**	**(156.819)**	**60.884.065**
Segment liabilities	3.930.034	2.183.180	33.601.002	14.800.595	194.590	31.537	-	(74.518)	54.666.420
Total liabilities	**3.930.034**	**2.183.180**	**33.601.002**	**14.800.595**	**194.590**	**31.537**	**-**	**(74.518)**	**54.666.420**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under “Undistributed” column.

(Currency – In thousands of Turkish lira)

5. Operating segments (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. The areas of operation include all the primary business segments.

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.

2010	**Turkey**	**European Union**	**USA and Canada**	**OECD Countries**	**Other**	**Total**
Other segment information						
Segment assets	72.813.400	124.202	13.471	6.172	192.774	73.150.019
Total assets	**72.813.400**	**124.202**	**13.471**	**6.172**	**192.774**	**73.150.019**
Segment liabilities	57.725.379	1.717.185	1.469.957	17.836	4.318.151	65.248.508
Total liabilities	**57.725.379**	**1.717.185**	**1.469.957**	**17.836**	**4.318.151**	**65.248.508**
Acquisition of segment assets						
Property and equipment	328.588	-	-	-	-	328.588
Intangible assets	10.930	-	-	-	-	10.930

2009	**Turkey**	**European Union**	**USA and Canada**	**OECD Countries**	**Other**	**Total**
Other segment information						
Segment assets	59.398.248	965.202	651	11.711	508.253	60.884.065
Total assets	**59.398.248**	**965.202**	**651**	**11.711**	**508.253**	**60.884.065**
Segment liabilities	50.001.501	2.868.130	21.671	38.732	1.736.386	54.666.420
Total liabilities	**50.001.501**	**2.868.130**	**21.671**	**38.732**	**1.736.386**	**54.666.420**
Acquisition of segment assets						
Property and equipment	343.324	-	-	-	-	343.324
Intangible assets	11.975	-	-	-	-	11.975

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

(Currency – In thousands of Turkish lira)

6. Cash on hand

At 31 December, cash on hand comprised the following:

	2010	**2009**
Cash on hand		
- *Turkish lira*	*316.079*	*204.776*
- *Foreign currency*	*62.649*	*51.525*
Precious metals (gold)	557	418
Other liquid assets	12	27
Total cash on hand	**379.297**	**256.746**

There is no blockage or restriction on the use of cash and cash equivalents as at 31 December 2010 and 2009.

7. Balances with Central Bank

	2010	**2009**
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	2.458.657	1.889.070
Demand deposits – Foreign currency	491.046	414.491
	2.949.703	**2.303.561**
Reserve deposits		
Demand deposits – Turkish Lira(1)	7.356	22.415
Demand deposits – Foreign currency	1.313.209	833.002
	1.320.565	**855.417**
Total balances with Central Bank	**4.270.268**	**3.158.978**

(1) Contains Cyprus Branch's reserve deposit and accrual of reserve deposits related with prior periods.

According to the Communiqué on Reserve Requirements, No. 2005/1 based on Article 40-II of The Law on the Central Bank of the Republic of Turkey No. 1211 as amended by Banking Law No. 5411, dated 19 October 2005, banks are obliged to maintain required reserves at the Central Bank for their liabilities. Deposits subject to reserve requirement include the deposits of real and legal persons, interbank deposits (excluding domestic interbank deposits) and the deposits collected in Turkey by the banks on behalf of their branches abroad. Reserve deposits required by the Central Bank of Turkey are not interest bearing.

Reserve deposits represent the minimum deposits maintained within the Central Bank of Turkey calculated on the basis of the TL and foreign currency liabilities taken, at the rates determined by the Central Bank of Turkey. The reserve deposit rates for TL and foreign currency liabilities are 6% and 11% (31 December 2009: 5% and 9%), respectively.

(Currency – In thousands of Turkish lira)

8. Due from banks

	2010	2009
Domestic banks		
Demand deposits – Turkish lira	25.086	12.684
Demand deposits – Foreign currency	1.802	105
Time deposits – Turkish lira	57.218	98.132
Time deposits – Foreign currency	720.330	14.037
	804.436	**124.958**
Foreign banks		
Demand deposits – Turkish lira	21.028	9.934
Demand deposits – Foreign currency	53.548	40.871
Time deposits – Turkish lira	-	12.611
Time deposits – Foreign currency	133.656	983.535
	208.232	**1.046.951**
Money market placements(1)	**216.125**	**203**
Total due from banks	**1.228.793**	**1.172.112**

(1) Money market placements include interest income accrual amounting to TL 135 (31 December 2009: None).

For cash flow purposes, the bank balances having original maturity of less than 3 months were classified as cash and cash equivalents. These balances amounting to TL 1.012.615 as at 31 December 2010 (31 December 2009: TL 1.171.834).

9. Securities portfolio

Financial assets at fair value through profit or loss

At 31 December, financial assets at fair value through profit or loss comprised the following:

	2010	2009
Turkish Government bonds and Eurobonds issued by the Turkish Government	53.755	33.185
Turkish treasury bills	-	462
Bonds issued by financial institutions	1.925	1.778
Equity instruments –listed	-	9
Total of financial assets at fair value through profit or loss	**55.680**	**35.434**

(Currency – In thousands of Turkish lira)

9. Securities portfolio (continued)

At 31 December, available for sale securities portfolio comprised the following:

	2010	**2009**
Treasury bills and government bonds	7.484.123	4.775.997
Equity shares	33.081	19.871
Repurchase agreements	-	104.285
Allowance for impairment on securities	(15.633)	(1.798)
Total of available for sale securities	**7.501.571**	**4.898.355**

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	2010	**2009**
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	6.682
IMKB Takas ve Saklama Bankası AŞ	3.671	3.671
Bankalararası Kart Merkezi AŞ	2.565	2.565
Kredi Kayıt Bürosu AŞ	2.516	2.516
Kredi Garanti Fonu İşletme ve Araştırma AŞ	2.030	2.030
Uluslararası Garagum Ortaklar Bankası	1.851	453
Mersin Serbest Bölge İşleticisi AŞ	153	153
TARSIM	130	130
TC Merkez Bankası	43	43
Alidaş AlanyaLiman İşl. Deniz.Tur. ve Tic.San.AŞ	30	30
Gelişen İşletmeler Piyasaları AŞ	3	250
Türkiye Vakıflar Bankası AŞ	-	85
Antalya Serbest Bölge	-	46
Türkiye Kalkınma Bankası AŞ	-	9
Ziraat Portföy Yönetimi AŞ	-	2
Other	745	1.206
Allowance for impairment on securities	(12.865)	(774)
Total equity shares in available for sale investments	**20.216**	**19.097**

(Currency – In thousands of Turkish lira)

9. Securities portfolio (continued)

The details of allowance for impairment are as follows:

	2010	2009
Macar-Halk Bank Magysrorszagi VolksBank RT	10.708	-
Uluslararası Garagum Ortaklar Bankası	1.627	226
Bankalararası Kart Merkezi AŞ	506	506
Kredi Garanti Fonu İşletme ve Araştırma AŞ	24	24
Antalya Serbest Bölge	-	9
Türkiye Kalkınma Bankası AŞ	-	9
Allowance for impairment on securities	**12.865**	**774**

Held to maturity investments comprised the following items:

	2010	2009
Treasury bills and government bonds	9.489.470	10.552.561
Subject to repurchase agreements	3.260.370	6.020.987
Total of held to maturities portfolio	**12.749.840**	**16.573.548**

As of 31 December 2010, the Group reclassified TL 1.854.076 of financial assets from held to maturity investments portfolio to available for sale portfolio since the remaining day to maturity of such financial assets is very short, the carrying value of these financial assets approximate their nominal value (31 December 2009: TL 1.045.479).

(Currency – In thousands of Turkish lira)

10. Loans and advances

	2010	2009
Short term loans		
Guaranteed export loans	2.256.845	2.120.270
Other guaranteed loans	9.377.384	6.358.493
Other non-guaranteed loans	2.833.278	3.182.884
Loans provided to financial sector	2.046.889	1.058.166
Loans provided to foreign institutions	116.308	182.737
Non-guaranteed export loans	306.723	552.345
Interest accruals	172.770	205.188
	17.110.197	**13.660.083**
Medium and long term loans		
Guaranteed other investment and operating loans	16.340.410	9.907.445
Other non-guaranteed loans	10.123.117	8.270.633
Loans given to foreign institutions	109.691	55.932
Loans given to financial sector	48.296	622
Interest accruals	271.553	277.714
	26.893.067	**18.512.346**
Total performing loans and advances	**44.003.264**	**32.172.429**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	1.757.753	1.667.912
Specific allowance for impairment on loans	(1.065.241)	(977.032)
Portfolio allowance for impairment on loans	(310.677)	(320.446)
Loans and advances, net	**44.385.099**	**32.542.863**

The movement in the allowance for impairment on loans for the year ended 31 December is as follows:

	2010	2009
Balance on 1 January	(1.297.478)	(961.471)
Net impairment loss for the period:	(78.440)	(336.007)
- *Charge for the period*	(288.707)	(499.398)
- *Recoveries and reversals*	210.267	163.391
Balance at 31 December	**(1.375.918)**	**(1.297.478)**

(Currency – In thousands of Turkish lira)

11. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December, insurance receivables comprised the following:

	2010	**2009**
Receivables from agencies, brokers and intermediaries	45.852	39.980
Receivables from reinsurance and insurance companies	46.934	37.506
Cash deposited to insurance and reinsurance companies	17	2
Receivables from policyholders	15.717	14.474
Total insurance receivables	**108.520**	**91.962**
Allowance for non-performing insurance receivables	(13.758)	(12.845)
Insurance receivables, net	**94.762**	**79.117**

The details of guarantees for the Group's insurance receivables are presented below:

	2010	**2009**
Mortgage notes	17.776	17.629
Letters of guarantees	3.816	3.351
Treasury bills and government bonds	55	40
Other guarantees	481	242
Total	**22.128**	**21.262**

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December is as follows:

	2010	**2009**
Balance at 1 January	12.845	11.274
Impairment loss recognised	(5)	(742)
Collections during the period	918	2.313
Balance at 31 December	**13.758**	**12.845**

(Currency – In thousands of Turkish lira)

11. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance technical reserves as of 31 December are detailed in the tables below:

	2010	**2009**
Life mathematical reserve	99.803	52.047
Unearned premiums reserve	92.494	68.600
Claims provision	64.507	50.098
Unexpired risk reserve	2.725	1.443
Other technical reserves	3.772	2.000
Total	**263.301**	**174.188**

Other insurance contract liabilities as of 31 December are detailed in the tables below:

	2010	**2009**
Insurance operating liabilities	15.525	10.662
Re-insurance operating liabilities	17	18
Total	**15.542**	**10.680**

12. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	2010	**2009**
Demir-Halk Bank NV	115.566	127.922
Halk Finansal Kiralama AŞ	51.430	43.209
Kobi AŞ	13.232	11.993
Finansal Teknoloji Hizmetleri AŞ	1.014	717
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	2.445	335
Equity accounted investees	**183.687**	**184.176**

(Currency – In thousands of Turkish lira)

12. Equity accounted investees (continued)

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

	Ownership	Total assets	Equity	Profit / (loss) in the period
2010				
Demir-Halk Bank NV	30.00%	3.913.826	392.886	8.375
Halk Finansal Kiralama AŞ	47.75%	473.512	107.835	17.115
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31.47%	42.258	42.046	936
Finansal Teknoloji Hizmetleri AŞ	24.00%	8.427	4.226	345
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	24.00%	19.348	10.185	4.571
2009				
Demir-Halk Bank NV	30.00%	4.292.978	449.605	12.300
Halk Finansal Kiralama AŞ	47.75%	392.277	75.552	15.896
Kobi Girişim Sermayesi Yatırım OrtaklığıAŞ	31.47%	38.281	38.110	1.622
Finansal Teknoloji Hizmetleri AŞ	24.00%	7.094	3.880	311
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	24.00%	14.175	5.664	2.121

(Currency – In thousands of Turkish lira)

13. Property and equipment

	Land and buildings	Tangible assets purchased through financial lease	Tangible assets obtained for non performing loans	Other movable tangible assets	Total
Cost					
Balance at 1 January 2009	885.472	52.381	104.983	489.629	1.532.465
Additions	54.546	31.956	152.176	104.646	343.324
Disposals	-	(4.784)	(8.176)	(93.853)	(106.813)
Transfers	(5.830)	-	12.376	(2.794)	3.752
Balance at 31 December 2009	**934.188**	**79.553**	**261.359**	**497.628**	**1.772.728**
Balance at 1 January 2010	931.338	79.553	255.154	497.628	1.763.673
Additions	30.044	40.262	181.746	76.536	328.588
Disposals	(382)	(20.050)	(43.671)	(141.010)	(205.113)
Transfers	(9.495)	(8)	(91.335)	-	(100.838)
Balance at 31 December 2010	**951.505**	**99.757**	**301.894**	**433.154**	**1.786.310**
Depreciation and impairment losses					
Balance at 1 January 2009	(168.018)	(21.132)	(2.727)	(398.106)	(589.983)
Depreciation for the period	(14.380)	(11.024)	(4.150)	(33.340)	(62.894)
Impairment loss	(2.850)	-	(6.205)	-	(9.055)
Disposals	-	4.474	42	36.479	40.995
Transfers	5.022	-	(1.553)	1.712	5.181
Balance at 31 December 2009	**(180.226)**	**(27.682)**	**(14.593)**	**(393.255)**	**(615.756)**
Balance at 1 January 2010	(177.376)	(27.682)	(8.388)	(393.255)	(606.701)
Depreciation for the period	(16.294)	(17.152)	(6.583)	(35.876)	(75.905)
Impairment loss	(621)	-	(5.128)	-	(5.749)
Disposals	-	11.369	1.558	119.693	132.620
Transfers	14.831	(1.041)	1.086	(1.044)	13.832
Balance at 31 December 2010	**(179.460)**	**(34.506)**	**(17.455)**	**(310.482)**	**(541.903)**
Carrying amounts					
At 1 January 2009	**717.454**	**31.249**	**102.256**	**91.523**	**942.482**
At 31 December 2009	**753.962**	**51.871**	**246.766**	**104.373**	**1.156.972**
At 31 December 2010	**772.045**	**65.251**	**284.439**	**122.672**	**1.244.407**

The fair values of land and buildings and tangible 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 Group renews the revaluations every year and recognizes impairment loss when the recoverable amounts of such assets become less than their carrying amounts.

(Currency – In thousands of Turkish lira)

14. Intangible assets

	Other intangible assets	Total
Cost		
Balance at 1 January 2009	9.501	9.501
Additions	11.976	11.976
Disposals	(1.317)	(1.317)
Transfers	(4.198)	(4.198)
Balance at 31 December 2009	**15.962**	**15.962**
Balance at 1 January 2010	15.962	15.962
Additions	10.930	10.930
Disposals	(3.146)	(3.146)
Transfers	(106)	(106)
Balance at 31 December 2010	**23.640**	**23.640**
Amortisation		
Balance at 1 January 2009	(3.114)	(3.114)
Amortisation for the period	(1.265)	(1.265)
Disposals	506	506
Balance at 31 December 2009	**(3.873)**	**(3.873)**
Opening balance, 1 January 2010	(3.873)	(3.873)
Amortisation for the period	(1.802)	(1.802)
Disposals	690	690
Balance at 31 December 2010	**(4.985)**	**(4.985)**
Carrying amounts		
At 1 January 2009	**6.387**	**6.387**
At 31 December 2009	**12.089**	**12.089**
At 31 December 2010	**18.655**	**18.655**

15. Non-current assets held for sale

	2010	2009
Balance at 1 January	84.091	130.416
Additions /Transfers(net)	105.564	(10.879)
Disposals	(92.652)	(36.141)
Amortisation	-	-
Impairment loss recognized and reversals	1.128	695
Balance at 31 December	**98.131**	**84.091**

The Group’s assets classified as assets held for sale comprises real estates acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. The related real estates subject to sale are announced on the Group’s website. Announcements are made by using newspaper ads and similar media.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms.

(Currency – In thousands of Turkish lira)

16. Other assets

At 31 December, other assets comprised the following:

	2010	2009
Prepaid promotion expense	247.098	150.371
Clearing House account	181.430	148.499
Credit card receivables	71.971	55.812
Asset sale on credit terms receivables	40.467	59.141
Receivables from Saving Deposit Insurance Funds	32.585	1.857
Other prepaid receivables	17.089	17.259
Derivative financial instruments receivables	15.875	51.756
Banking service receivables	2.872	4.210
Lawsuit receivables	2.154	3.490
Cash guarantees given	2.148	803
Pending for board of discipline decision receivables	640	535
Advances given	556	233
Other assets	89.358	31.984
Total other assets	**704.243**	**525.950**

17. Deposits

At 31 December, deposits from banks comprised the following:

	2010	2009
Payable on demand	1.175.579	215.341
Time deposits	2.048.249	1.707.783
Deposits from banks	**3.223.828**	**1.923.124**

As at 31 December 2010, deposits from banks include TL accounts amounting to TL 1.384.673 (31 December 2009: TL 1.286.529) and foreign currency accounts amounting to TL 1.839.155 (31 December 2009: TL 636.595) in total.

At 31 December, deposits from customers comprised the following:

	2010		2009	
	Demand	**Time**	**Demand**	**Time**
Saving deposits	1.789.824	20.362.013	1.180.217	17.227.733
Foreign currency deposits	1.733.953	11.058.278	1.694.105	12.020.205
Commercial deposits	1.839.250	7.633.554	1.428.246	4.033.647
Public institutions and other deposits	2.138.439	4.775.276	1.331.972	3.039.997
Deposits from customers	**7.501.466**	**43.829.121**	**5.634.540**	**36.321.582**

(Currency – In thousands of Turkish lira)

18. Obligations under repurchase agreements

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	2010	**2009**
Obligations under repurchase agreements	3.155.055	5.757.667
Total	**3.155.055**	**5.757.667**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2010, the maturities of the obligations varied from one day to 1 year (31 December 2009: one day to eight months).

19. Loan and advances from banks

At 31 December, funds borrowed comprised the following:

	2010		**2009**	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	235.795	21.143	223.735	-
Loans and advances from foreign banks and institutions	1.726.169	1.842.980	192.740	1.615.042
Funds borrowed	**1.961.964**	**1.864.123**	**416.475**	**1.615.042**

(Currency – In thousands of Turkish lira)

19. Loan and advances from banks (continued)

	2010	2009
Borrowings	3.826.087	2.031.517
Funds	1.295.232	1.315.802
Total	**5.121.319**	**3.347.319**

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 2010 (31 December 2009: None).

The amounts of funds of the Group as of 31 December are as follows:

	2010	2009
Funds transferred from Emlak Bank	116.365	112.302
Establishing small manufacturing shops and sites	372.979	361.979
Organized manufacturing regions	659.895	610.505
Undersecreteriat of Treasury	539	8.946
Housing estate fund	46.966	63.088
Borrower's fund	70.245	97.237
Other	28.243	61.745
Total	**1.295.232**	**1.315.802**

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 instalments of the loan originated.

As at 31 December, interest rates and maturities of short-term bank borrowings are as follows:

Fixed rates			
2010	**Amount**	**Interest rate**	**Maturity**
USD borrowings	833.617	0% - 5.69%	January 2011 - September 2038
EUR borrowings	1.876.487	0.567% - 6.22%	January 2011 - September 2038
TL borrowings	203.429	0% - 10%	January 2011 - June 2020
Other borrowings	1.611	0.2776% - 3.497%	January 2011 - December 2011
Total	**2.915.144**		

Floating rates			
2010	**Amount**	**Interest rate**	**Maturity**
USD borrowings	198.250	Libor + 1.50	July 2011
EUR borrowings	712.693	Euribor + 1.50	July 2011
Total	**910.943**		

(Currency – In thousands of Turkish lira)

19. Loan and advances from banks (continued)

2009	Amount	Interest rate	Maturity
USD borrowings	343.407	Libor + %0.286 – Libor + %1.30	March 2013 – September 2038
EUR borrowings	1.484.613	Euribor + %0.11 – Euribor + %0.443 6.22%	October 2014 – September 2038
TL borrowings	201.722	11.55%	June 2010 – October 2010
Other borrowings	1.775		
Total	**2.031.517**		

Borrowings from foreign banks and institutions include syndicated loans and other borrowings. Details of syndicated loans as at 31 December 2010 are as follows:

Principal	Maturity	Interest rate %
USD 35 thousand	July 2011	Libor+1,50
USD 35 thousand	July 2011	Libor+1,50
USD 15 thousand	July 2011	Libor+1,50
USD 15 thousand	July 2011	Libor+1,50
USD 20 thousand	July 2011	Libor+1,50
USD 5 thousand	July 2011	Libor+1,50
USD 5 thousand	July 2011	Libor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 30 thousand	July 2011	Euribor+1,50
Euro 20 thousand	July 2011	Euribor+1,50
Euro 12.5 thousand	July 2011	Euribor+1,50
Euro 12.5 thousand	July 2011	Euribor+1,50
Euro 5 thousand	July 2011	Euribor+1,50
Euro 5 thousand	July 2011	Euribor+1,50
Euro 5 thousand	July 2011	Euribor+1,50
Euro 5 thousand	July 2011	Euribor+1,50
Euro 3.5 thousand	July 2011	Euribor+1,50
Euro 3.5 thousand	July 2011	Euribor+1,50
Euro 3.5 thousand	July 2011	Euribor+1,50
Euro 3.5 thousand	July 2011	Euribor+1,50

As of 31 December 2009, the Group has no syndicated and securitized loans.

(Currency – In thousands of Turkish lira)

20. Interbank money market borrowings

	2010	2009
Payables to stock exchange money market	30.058	19.223
On behalf of customer	95.710	199
Total	**125.768**	**19.422**

Payables to Stock Exchange Money Markets have a maturity of 3-47 days (31 December 2009: 1 day) with 6.85% and 7.30% (31 December 2009: 1%-7.15%) of interest rates.

21. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2010 (31 December 2009: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

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

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

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2010 is 20% (31 December 2009: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

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

(Currency – In thousands of Turkish lira)

21. Taxation (continued)

Investment incentives

Investment incentive practice has been cancelled to be valid from 1 January 2006. However, since the companies' taxable incomes are not sufficient, the amount of investment allowance that they cannot benefit as of 31 December 2005 can be transferred to the following years in order to be deducted from the taxable revenues of the following years. Meanwhile, transferred investment allowance can be deducted only from the revenues of the years 2006, 2007 and 2008. It is not possible to transfer the investment allowance amount which cannot be deducted from the corporate revenue of the year 2008 to the following periods.

Constitutional Court has cancelled this practice which violates the acquired rights at the session held on 15 October 2009 by pronouncing that it is contradictory with the Constitution and consequently the time limit related to the investment allowance has been annulated as of the reporting date. The said decision is published in the Official Gazette dated 8 January 2010.

New arrangements made with the Law No. 6009 published in the official newspaper article dated 1 August 2010, made a general assessment regarding utilized investment incentives can be benefited without limitation in time period. With Law No. 6009, investment incentive is limited to 25% of the amount of related period the earnings. Also 20% corporate tax will be calculated on earnings after investment incentives. As the arrangements made with the Law No. 6009 come into force in 1 August 2010, for the period January – June 2010 provisional tax returns will benefit from investment incentives on total earnings without scope of 25% limitation and also 30% tax will be calculated on the earnings after investment incentive.

Transfer pricing

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

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

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country used to calculate deferred taxes as of 31 December are as follows:

	2010	**2009**
Northern Cyprus	10%	10%
Bahrain	-	-

(Currency – In thousands of Turkish lira)

21. Taxation (continued)

Deferred taxes

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

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2009: 20%) is used.

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

Deferred tax assets and liabilities are attributable to the following:

	2010	**2009**
Valuation difference on marketable securities	131.769	112.958
Adjustments to portfolio reserve on loans and advances	60.311	54.814
Retirement pay provision and unused vacation provision	55.316	48.765
Provision for lawsuits against the Bank	4.499	4.518
Net accrual expense for derivative instruments	969	13.146
Amortisation difference on tangible and intangible assets	(3.662)	(5.032)
Reversal of specific loan provision	(60.567)	(52.347)
Others	12.644	6.284
Deferred tax assets, net	**201.279**	**183.106**

(Currency – In thousands of Turkish lira)

21. Taxation (continued)

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

	2010	**2009**
Deferred tax assets, net at 1 January	183.106	49.755
Deferred income tax recognised in other comprehensive income	(19.143)	(31.033)
Deferred tax recognised in the income statement	37.316	164.384
Deferred tax assets, net at 31 December	**201.279**	**183.106**

An analysis of the Group's income tax expense for the year ended 31 December is as follows:

	2010	**2009**
Current tax expense		
Current period	544.120	557.911
Deferred tax benefit		
Origination and reversal of temporary differences	(37.316)	(164.384)
Total income tax expense	**506.804**	**393.527**

Reconciliation of effective tax rate

The reported taxation charge for the period ended 31 December is different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	2010		**2009**	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**2.452.155**		**2.147.858**	
Income tax using the Bank's domestic tax rate	490.431	20,00	429.572	20,00
Tax exempt income	(33.195)	(1,35)	(42.381)	(1,97)
Non-deductible expenses	49.568	2,02	6.336	0,29
	506.804	**20,67**	**393.527**	**18,32**

(Currency – In thousands of Turkish lira)

22. Other liabilities and provisions

	2010	2009
Other liabilities		
Cooperative deposit blockages	423.777	320.613
Cheques clearance account	322.832	115.264
Credit card members restricted account	257.642	165.142
Unearned revenue	126.947	66.365
Taxes and dues payable	85.337	84.397
Banking transactions	54.174	30.390
Import transfer orders	21.448	3.435
Collaterals received for derivative instruments	15.195	10.811
Resource utilization support fund	14.779	9.919
Payment orders	10.362	10.441
Trade payables to vendors	6.005	4.316
Debts for securities investment fund	2.113	3.309
Obligations under finance leases	566	138
Other liabilities	38.913	74.345
	1.380.090	**898.885**
Provisions		
Employee termination benefits	207.204	180.431
Unused vacation provision	69.401	63.390
Provision on non-cash loans	46.665	21.518
Provision on lawsuits	22.493	43.618
Provisions for credit card bonuses	6.299	4.390
Other	52.993	42.851
	405.055	**356.198**

(Currency – In thousands of Turkish lira)

22. 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 TL 2.517 and TL 2.365 at 31 December 2010 and 2009 respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December, 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 TL 2.623 effective 1 January 2011.

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

	2010	**2009**
Discount rate for pension plan liabilities	10,00%	11,00%
Expected rates of salary increase	5,10%	4,80%
Inflation	7,10%	6,80%

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

	2010	**2009**
Defined benefit obligation at 1 January	180.431	179.778
Current service cost	12.065	10.399
Interest cost	19.246	20.934
Actuarial losses	19.161	2.875
Benefits paid	(23.699)	(33.555)
Defined benefit obligation at 31 December	**207.204**	**180.431**

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

	2010	**2009**
Current service cost	12.065	10.399
Interest cost	19.246	20.934
Amortization of unrecognized net loss	19.161	2.875
	50.472	**34.208**

(Currency – In thousands of Turkish lira)

23. Derivative financial instruments

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.

	2010			2009		
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Currency swap contracts	13.726	24.161	3.179.800	2.962	43.826	5.788.976
Other swap contracts	9.812	13.513	426.820	13.833	42.052	1.045.360
Other	10.769	1.477	1.254.422	3.733	3.078	843.681
Total	**34.307**	**39.151**	**4.861.042**	**20.528**	**88.956**	**7.678.017**

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

24. Share capital

	2010	**2009**
TL 1 (in full TL), par value	1.250.000.000	1.250.000.000
Total number of shares	**1.250.000.000**	**1.250.000.000**
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**

25. Reserves and dividends paid and proposed

Fair value reserve

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

Hedging reserve

The hedging reserve comprises the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. Any ineffective portion of the changes in the fair value of the derivative is recognised immediately in profit or loss.

Other reserves

Other reserves consist of legal reserves kept within the Group.

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 6 May 2010, decision was taken for profit distribution amounting to TL 357.821 out of year 2009 profit. As of the reporting date, dividend payment has been completed (31 December 2009: TL 281.579).

(Currency – In thousands of Turkish lira)

26. 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.

There is no dilution of shares as of 31 December 2010 and 2009.

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	2010	**2009**
Net profit attributable to ordinary shareholders for basic earnings per share	1.944.755	1.753.556
Weighted average number of ordinary shares for basic earnings per share	1,250,000,000	1,250,000,000
Basic earnings per share (full TL per share)	**1,5558**	**1,4028**

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

27. 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 (incorporated in Turkey). 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.

(Currency – In thousands of Turkish lira)

27. Related parties (continued)

Transactions with key management personnel

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

As of 31 December 2010 and 2009 the Group's directors and executive officers have no outstanding personnel loans from the Bank.

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

Total compensation provided to key management personnel is:

	2010	**2009**
Salaries and short-term benefits	6.380	5.492

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 Bank 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

2010	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
Halk Finansal Kiralama AŞ	75.704	24.220	3.691	3.160	53	34
Demir-Halk Bank NV	-	76	-	-	-	1
Kredi Garanti Fonu İşletme ve Araştırma AŞ	-	665	25.776	-	1.489	22
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	-	2.251	26.474	-	2.327	22
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sis. AŞ	-	-	329	-	21	-
Mersin Serbest Bölge İşletmesi AŞ	-	-	1.168	-	37	-
Kredi Kayıt Bürosu AŞ	-	-	1.690	-	125	-
Total	**75.704**	**27.212**	**59.128**	**3.160**	**4.052**	**79**

As of 31 December 2010, cash loans due from Halk Finansal Kiralama AŞ realized in currencies other than functional currency comprise cash loans USD 17.500.000 and EUR 27.000.000 and non cash loans comprise USD 2.220.958, EUR 9.570.000 and CHF 789.275. Non-cash loans due from Demir-Halk Bank NV comprise USD 50.000.

(Currency – In thousands of Turkish lira)

27. Related parties (continued)

2009	Cash loans receivable	Non-cash loans receivable	Deposits	Interest income	Interest expense	Commission income
Halk Finansal Kiralama AŞ	58.611	11.953	5.248	3.085	-	130
Demir-Halk Bank NV	-	74	-		-	971
Kredi Garanti Fonu İşletme ve Araştırma AŞ	-	874	17.208	-	1.140	13
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	-	1.820	20.402	-	2.874	5
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sis. AŞ	-	-	-	-	204	-
Mersin Serbest Bölge İşletmesi AŞ	-	-	-	-	-	-
Kredi Kayıt Bürosu AŞ	-	-	2.270	-	485	-
Bankalararası Kart Merkezi AŞ	-	-	-	-	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 AŞ 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 Bank NV comprise USD 50.000.

Agreements with related parties

Halk Hayat Sigorta AŞ:

Halk Hayat Sigorta AŞ 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 Halk Hayat Sigorta AŞ.

Halk Yatırım Menkul Değerler AŞ:

Halk Yatırım Menkul Değerler AŞ 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 AŞ:

Kredi Garanti Fonu İşletme ve Araştırma AŞ 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.

28. Other operating income

	2010	2009
Gain on sale of property and equipment	66.891	29.985
Reversal from prior years' provision	64.644	27.910
Income from other banking services	9.338	12.730
Rent income	6.605	5.953
Other	15.781	711
Total	**163.259**	**77.289**

(Currency – In thousands of Turkish lira)

29. Other operating expenses

	2010	**2009**
Administrative expenses	374.563	330.909
Staff costs:		
Personnel expenses	689.537	608.470
Retirement pay provision	50.472	34.208
Depreciation expense	77.707	64.159
Taxes, duties, charges and premium expenses	77.420	33.396
Saving deposit insurance fund expenses	65.318	67.232
Loss on sale of property and equipment	5.158	4.425
Provision expense for lawsuits	1.021	-
Other	182.305	214.460
Total	**1.523.501**	**1.357.259**

30. Fees and commission income and expenses

	2010	**2009**
Fees and commission income		
Banking	596.240	519.324
Brokerage	19.260	14.822
Total	**615.500**	**534.146**
Fees and commission expenses		
Banking	(105.275)	(82.639)
Brokerage	(250)	(184)
Total	**(105.525)**	**(82.823)**

31. Additional cash flow information

	2010	**2009**
Cash on hand	379.297	256.746
Due from banks		
(with original maturity of less than 3 months)	1.012.615	1.171.834
Money market placements	215.990	203
Unrestricted balances with Central Bank	2.949.703	2.303.561
Cash and cash equivalents in the statement of cash flows	**4.557.605**	**3.732.344**

The reserve deposits with Central Bank are not available to finance the Bank’s day-to-day operations and therefore are not part of cash and cash equivalents.

(Currency – In thousands of Turkish lira)

32. 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:

	2010	2009
Letters of guarantee issued	8.943.017	6.775.313
Letters of credit	3.377.338	2.243.228
Acceptance credits	149.594	138.242
Other	256.403	158.159
Total non-cash loans	**12.726.352**	**9.314.942**
Other commitments	5.771.870	3.014.455
Insurance commitments	383.645.469	216.275.901
Credit card limit commitments	4.116.008	2.820.953
Total	**406.259.699**	**231.426.251**

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 Capital Markets Board of Turkey. 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 31 December 2010, according to the general requirements of the ISE, letters of guarantee amounting to TL 55.162 and (31 December 2009: TL 37.912) 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

323 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 15 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.

33. 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 suretyships, 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.

33. Financial risk management (continued)

Credit risk (continued)

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 23,99% (31 December 2009: 22,80%).

The percentage of the top 100 non-cash loan clients of the Bank to the total loan portfolio is 59,89% (31 December 2009: 62,46%).

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 18,28% (31 December 2009: 16,23%).

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.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Credit risk (continued)

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

	2010	
	Cash	**Non-cash**
Agricultural	736.953	12.235
Farming and raising livestock	716.939	10.037
Forestry	2.807	190
Fishing	17.207	2.008
Manufacturing	11.944.387	6.419.282
Mining	179.237	140.774
Production	11.024.272	5.392.336
Electric, gas and water	740.878	886.172
Construction	1.433.219	2.930.592
Services	16.876.588	3.110.601
Wholesale and retail trade	7.217.996	1.636.162
Hotel, food and beverage services	1.268.713	53.840
Transportation and telecommunication	2.072.567	130.987
Financial Institutions	2.474.370	1.019.150
Real estate and renting services	3.090.015	251.095
Self-employment services	200.614	4.590
Education services	129.608	3.438
Health and social services	422.705	11.339
Other	13.012.117	253.642
Total loans	**44.003.264**	**12.726.352**
Non-performing loans	1.757.753	-
Less: allowance for losses on loans and advances	(1.375.918)	-
Total	**44.385.099**	**12.726.352**

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Credit risk (continued)

	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**

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Credit risk (continued)

Credit risk by types of borrowers and geographical concentration:

	Loans and advances to customers[3]		Loans and advances to financial institutions[3]		Marketable securities[1]	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Loans according to borrowers:						
Private sector	28.466.360	22.426.661	2.074.764	1.058.788	20.844	-
Public sector	1.630.707	867.815	-	-	20.320.554	21.508.673
Banks	-	-	60.927	29.600	-	-
Retail	11.326.183	7.306.663	-	-	-	-
Share certificates	-	-	-	-	-	19.192
Total	**41.423.250**	**30.601.139**	**2.135.691**	**1.088.388**	**20.341.398**	**21.527.865**
Information according to geographical concentration:						
Domestic	41.237.747	30.392.006	2.095.185	1.058.788	20.330.612	21.518.874
EU countries	66.885	132.477	-	-	8.636	6.990
OECD countries[2]	-	6.061	-	-	-	-
Offshore Banking Regions	-	-	-	-	-	-
USD, Canada	-	172	-	-	-	-
Other countries	118.618	70.423	40.506	29.600	2.150	2.001
Total	**41.423.250**	**30.601.139**	**2.135.691**	**1.088.388**	**20.341.398**	**21.527.865**

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

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

(3) Interest and income accruals for the loans amounting to TL 444.323 are not included in the table above (31 December 2009: TL 482.902).

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

2010	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Receivables from banks	1.012.668	-	1.012.668
Financial assets at fair value through profit or loss	89.987	-	89.987
Loans[1]	42.671.630	567.228	43.238.858
-Corporate lending	16.498.322	76.288	16.574.610
-SME lending[2]	12.683.185	435.278	13.118.463
-Consumer lending	11.384.327	55.662	11.439.989
-Other	2.105.796	-	2.105.796
Available for sale investments	7.501.571	-	7.501.571
Held to maturity investments	12.749.840	-	12.749.840

(1) Loans of which risk does not belong to the Group (TL 1.146.241) are not included in table above.

(2) Financial assets which are overdue or which have value loss are presented in terms of net values. Specific loan provision of TL 1.375.918 belonging to loans given as of 31 December 2010 is netted off with loans extended to SMEs.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Credit risk (continued)

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 or loss	55.962	-	55.962
Loans[1]	30.816.823	643.272	31.460.095
-Corporate lending	7.734.909	51.823	7.786.732
-SME lending[2]	14.199.491	456.717	14.656.208
-Consumer lending	7.312.644	134.732	7.447.376
-Other	1.569.779	-	1.569.779
Available for sale investments	4.898.355	-	4.898.355
Held to maturity investments	16.573.548	-	16.573.548

(1) Loans of which risk does not belong to the Group (TL 1.082.768) are not included in table above.

(2) Financial assets which are overdue or which have value loss are presented in terms of net values. Specific loan provision of TL 1.297.478 belonging to loans given as of 31 December 2009 is netted off with loans extended to SMEs.

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

2010	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and receivables[1]				
Corporate loans	-	1.021	746	1.767
SME loans	106.756	34.721	17.078	158.555
Consumer loans	11.427	9.656	3.986	25.069
Credit cards	57.999	18.448	6.369	82.816
Total	**176.182**	**63.846**	**28.179**	**268.207**

(1) Loans for which risk does not belong to the Group are not included.

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
Other	18.563	19.721	1.336	39.620
Total	**185.711**	**88.432**	**38.315**	**312.458**

(1) Loans for which risk does not belong to the Group are not included.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Credit risk (continued)

As of 31 December 2010, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 906.886. The net value and type of the collaterals is as follows:

Collateral type	2010	2009
Real estate mortgage	640.047	1.090.759
Salary pledge, vehicle pledge and pledge of commercial undertaking	51.711	77.369
Financial collaterals (Cash, securities pledge, etc.)	283	12
Cheque, bills	12.447	37.346
Suretyship	145.568	165.608
Other	56.830	144.128
Total	**906.886**	**1.515.222**

(*) 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:

	2010	2009
Loans and receivables(1)		
Corporate loans	64.731	80.853
SME loans	77.407	66.375
Consumer loans	16.149	10.229
Other	186	8.259
Total	**158.473**	**165.716**

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

(Currency – In thousands of Turkish lira)

33. 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 Group 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 Group'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:

2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	41.907.093	10.645.829	2.201.996	76.836	1.394	54.833.148	54.554.415
Obligations under repurchase agreements	2.436.522	338.603	392.106	-	-	3.167.231	3.155.055
Loans and advances from banks	684.002	342.236	1.672.956	1.187.462	1.715.746	5.602.402	5.121.319
Interbank money market borrowings	125.768	-	-	-	-	125.768	125.768
Total	**45.153.385**	**11.326.668**	**4.267.058**	**1.264.298**	**1.717.140**	**63.728.549**	**62.956.557**

2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	31.619.906	10.892.778	1.528.436	51.513	1.429	44.094.062	43.879.246
Obligations under repurchase agreements	4.914.849	593.359	263.888	-	-	5.772.096	5.757.667
Loans and advances from banks	601.488	227.766	709.825	871.825	1.387.390	3.798.294	3.347.319
Interbank money market borrowings	19.422	-	-	-	-	19.422	19.422
Total	**37.155.665**	**11.713.903**	**2.502.149**	**923.338**	**1.388.819**	**53.683.874**	**53.003.654**

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Liquidity risk (continued)

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

2010	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts- buy	23.743	21.192	7.391	-	-	52.326
Forward contracts – sell	23.713	21.153	7.404	-	-	52.270
Swaps – buy	1.218.848	59.343	251.625	76.250	-	1.606.066
Swaps – sell	1.207.894	58.750	247.590	59.500	-	1.573.734
Credit default swap – buy	-	-	-	228.750	-	228.750
Credit default swap – sell	-	-	-	198.070	-	198.070
Forward precious metal - buy	-	483.170	-	-	-	483.170
Forward precious metal - sell	-	474.467	-	-	-	474.467
Money buy options	87.092	9.004	-	-	-	96.096
Money sell options	87.267	8.826	-	-	-	96.093
Total	**2.648.557**	**1.135.905**	**514.010**	**562.570**	**-**	**4.861.042**

2009	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts- buy	235.314	34.053	3.230	-	-	272.597
Forward contracts – sell	235.473	34.540	3.251	-	-	273.264
Swaps - buy	2.578.745	218.725	74.000	-	-	2.871.470
Swaps - sell	2.609.361	231.620	76.525	-	-	2.917.506
Interest rate swaps - buy	-	-	-	318.200	-	318.200
Interest rate swaps - sell	-	-	-	307.090	-	307.090
Credit default swap - buy	-	-	-	222.000	-	222.000
Credit default swap - sell	-	-	-	198.070	-	198.070
Forward precious metal - buy	-	148.799	-	-	-	148.799
Forward precious metal - sell	-	149.021	-	-	-	149.021
Total	**5.658.893**	**816.758**	**157.006**	**1.045.360**	**-**	**7.678.017**

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position:

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
2010								
Assets								
Cash on hand	379.285	-	-	-	-	-	12	379.297
Due from banks	99.623	1.129.128	42	-	-	-	-	1.228.793
Balances with Central Bank	490.565	110.621	1.895.188	437.200	15.311	273	545	2.949.703
Reserve deposit at Central Bank	-	1.320.565	-	-	-	-	-	1.320.565
Financial assets at fair value through profit or loss	-	11.878	12.331	21.322	35.946	8.510	-	89.987
Loans and advances(1)	763.451	6.602.538	3.451.949	12.189.567	17.746.214	3.249.545	-	44.003.264
Investments securities	-	752.588	474.211	1.068.226	14.482.789	3.453.381	20.216	20.251.411
Other assets	414.365	13.037	10.244	139	12.932	-	2.476.282	2.926.999
Total assets	**2.147.289**	**9.940.355**	**5.843.965**	**13.716.454**	**32.293.192**	**6.711.709**	**2.497.055**	**73.150.019**
Liabilities and equity								
Deposits from banks	1.175.579	1.974.261	52.911	21.077	-	-	-	3.223.828
Deposits from customers	7.501.465	31.120.340	10.327.990	2.302.765	76.634	1.393	-	51.330.587
Obligations under repurchase agreements	-	2.430.599	337.188	387.268	-	-	-	3.155.055
Loans and advances from banks(2)	1.296.033	92.981	218.836	1.365.391	772.041	1.376.037	-	5.121.319
Other liabilities(3)	1.108.621	276.129	118.804	265.845	215.417	161.313	8.173.101	10.319.230
Total liabilities and equity	**11.081.698**	**35.894.310**	**11.055.729**	**4.342.346**	**1.064.092**	**1.538.743**	**8.173.101**	**73.150.019**
Liquidity gap	**(8.934.409)**	**(25.953.955)**	**(5.211.764)**	**9.374.108**	**31.229.100**	**5.172.966**	**(5.676.046)**	**-**

(1) Non performing loans (net) are presented in other assets.

(2) 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.

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

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Liquidity risk (continued)

Presentation according to remaining maturities at the date of statement of financial position (continued):

	Demand	Up to 1 month	1-3 months	3-12 months	1 year to 5 years	Over 5 years	Undistributed	Total
2009								
Assets								
Cash on hand	256.746	-	-	-	-	-	-	256.746
Due from banks	60.903	1.090.450	20.341	-	-	-	418	1.172.112
Balances with Central Bank	-	586.713	1.492.927	216.065	7.649	207	-	2.303.561
Reserve deposit at Central Bank	414.521	440.896	-	-	-	-	-	855.417
Financial assets at fair value through profit or loss	-	4.911	4.562	5.953	32.602	7.842	92	55.962
Loans and advances to customers(1)	989.444	4.136.022	3.462.628	10.168.425	11.463.721	1.928.788	23.401	32.172.429
Investments securities	-	662.575	1.115.691	4.295.346	12.401.925	2.977.266	19.100	21.471.903
Other assets	265.397	17.604	16.607	8.418	2.864	-	2.285.045	2.595.935
Total assets	**1.987.011**	**6.939.171**	**6.112.756**	**14.694.207**	**23.908.761**	**4.914.103**	**2.328.056**	**60.884.065**
Liabilities and equity								
Deposits from banks	215.341	1.660.704	47.079	-	-	-	-	1.923.124
Deposits from customers	5.634.553	23.998.337	10.773.960	1.496.523	51.320	1.429	-	41.956.122
Obligations under repurchase agreements	-	4.908.765	588.018	260.884	-	-	-	5.757.667
Loan and advances from banks(2)	1.317.559	36.405	119.528	393.416	446.374	1.034.037	-	3.347.319
Other liabilities(3)	331.107	204.855	162.983	272.563	364.941	167.256	6.396.128	7.899.833
Total liabilities and equity	**7.498.560**	**30.809.066**	**11.691.568**	**2.423.386**	**862.635**	**1.202.722**	**6.396.128**	**60.884.065**
Liquidity gap	**(5.511.549)**	**(23.869.895)**	**(5.578.812)**	**12.270.821**	**23.046.126**	**3.711.381**	**(4.068.072)**	**-**

(1) Non performing loans (net) are presented in other assets.

(2) 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.

(3) Shareholders’ equity is presented in the “undistributed” column.

33 Financial risk management (continued)

Liquidity risk (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 8 February 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.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Currency risk (continued)

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 TL 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	
		2010	2009	2010	2009
USD	10	(8.505)	(15.104)	(8.505)	(15.104)
EUR	10	(11.184)	(13.402)	(11.184)	(13.402)
Other	10	1.030	(994)	1.030	(994)

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.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Currency risk (continued)

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

	EURO	USD	Other FC	Total
2010				
Assets				
Cash on hand and balances with Central Bank	1.831.074	31.234	4.608	1.866.916
Due from banks	144.411	727.885	37.040	909.336
Financial assets at fair value through profit or loss	886	28.451	294	29.631
Available-for-sale investment securities	797.240	759.235	-	1.556.475
Held-to-maturity investment securities	875.896	1.035.576	-	1.911.472
Loans and advances	4.754.139	7.302.958	71.983	12.129.080
Investment in equity- accounted investees	115.566	-	-	115.566
Property and equipment	40	-	7	47
Other assets	16.156	22.903	1.893	40.952
Total assets	**8.535.408**	**9.908.242**	**115.825**	**18.559.475**
Liabilities				
Deposits from banks	1.216.575	612.543	10.037	1.839.155
Foreign currency deposits	5.725.714	6.962.472	577.159	13.265.345
Obligations under repurchase agreements	-	614.156	-	614.156
Loan and advances from banks	2.584.461	1.036.569	1.628	3.622.658
Other liabilities	44.645	144.330	1.899	190.874
Total liabilities	**9.571.395**	**9.370.070**	**590.723**	**19.532.188**
Net on balance sheet position	**(1.035.987)**	**538.172**	**(474.898)**	**(972.713)**
Net off balance sheet position	**924.144**	**(623.219)**	**485.200**	**786.125**
Derivative financial assets	987.958	702.391	561.481	2.251.830
Derivative financial liabilities	63.814	1.325.610	76.281	1.465.705
Non-cash loans[(1)]	1.973.961	3.899.018	105.560	5.978.539

(1) Non-cash loans are not included in the off-balance sheet position items.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Currency risk (continued)

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

	EURO	USD	Other FC	Total
2009				
Assets				
Cash on hand and balances with Central Bank	1.269.266	26.029	3.750	1.299.045
Due from banks	893.356	62.530	95.265	1.051.151
Financial assets at fair value through profit or loss	2.123	23.827	47	25.997
Available-for-sale investment securities	461.478	866.995	-	1.328.473
Held-to-maturity investment securities	876.976	1.758.482	-	2.635.458
Loans and advances	3.487.882	5.452.802	4.610	8.945.294
Investment in equity- accounted investees	127.922	-	-	127.922
Property and equipment	41	-	3	44
Other assets	9.560	55.236	44	64.840
Total assets	**7.128.604**	**8.245.901**	**103.719**	**15.478.224**
Liabilities				
Deposits from banks	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
Loan and advances from banks	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)	1.803.456	3.730.247	58.274	5.591.977

(1) Non-cash loans are not included in the off-balance sheet position items.

33. Financial risk management (continued)

Interest rate risk

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Group. 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 Group'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 Group'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 Group such as; TL deposits, repurchase agreements, FC deposits are determined with the approval of the executive member appointed by the Board of Directors. Since the Group prohibits interest mismatches and imposes limits, the Group is not subject to a material interest rate risk exposure.

Interest rate sensitivity:

If interest rates increase by 200 base points as of reporting date all other variables remaining constant;

- The Group's net income before tax will decrease by TL 1.074 (31 December 2009: TL 671 decrease).
- The Group's shareholders' equity will decrease by TL 150.701 (31 December 2009: TL 95.256 decrease).

Other price risks

The Group does not have any equity investments reflected with their fair values; hence it is not subject to share price risk.

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates:

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
2010							
Assets							
Cash on hand	-	-	-	-	-	379.297	379.297
Due from banks	1.129.128	42	-	-	-	99.623	1.228.793
Balances with Central Bank	-	-	-	-	-	2.949.703	2.949.703
Reserve deposits at Central Bank	-	-	-	-	-	1.320.565	1.320.565
Financial assets at fair value through profit or loss	894	28.064	27.007	25.512	8.510	-	89.987
Investment securities	4.549.420	4.797.473	2.361.934	6.227.783	2.294.585	20.216	20.251.411
Loans and advances(1)	14.931.731	6.601.889	9.898.339	10.147.610	1.664.774	758.921	44.003.264
Other assets	36.375	-	-	-	-	2.890.624	2.926.999
Total assets	**20.647.548**	**11.427.468**	**12.287.280**	**16.400.905**	**3.967.869**	**8.418.949**	**73.150.019**
Liabilities and equity							
Deposits from banks	1.974.261	52.911	21.077	-	-	1.175.579	3.223.828
Deposits from customers	31.121.718	10.331.467	2.373.468	2.469	-	7.501.465	51.330.587
Obligations under repurchase agreements	2.430.599	337.188	387.268	-	-	-	3.155.055
Loans and advances from banks(2)	1.072.743	1.830.161	711.700	93.338	115.650	1.297.727	5.121.319
Other liabilities(3)	1.162.042	76.225	85.326	-	-	8.995.637	10.319.230
Total liabilities and equity	**37.761.363**	**12.627.952**	**3.578.839**	**95.807**	**115.650**	**18.970.408**	**73.150.019**
On balance sheet interest sensitivity gap-Long	-	-	8.708.441	16.305.098	3.852.219	-	28.865.758
On balance sheet interest sensitivity gap-Short	(17.113.815)	(1.200.484)	-	-	-	(10.551.459)	(28.865.758)
Off balance sheet interest sensitivity gap-Long	70.776	230.923	-	-	-	-	301.699
Off balance sheet interest sensitivity gap-Short	(35.363)	(37.586)	-	(198.070)	-	-	(271.019)
Total position	**(17.078.402)**	**(1.007.147)**	**8.708.441**	**16.107.028**	**3.852.219**	**(10.551.459)**	**30.680**

(1) Non performing loans (net) are presented in other assets.

(2) The balance consists of funds provided from other financial institutions and banks.

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

(Currency – In thousands of Turkish lira)

33. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on repricing dates (continued):

	Up to 1 month	1 to 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Non-interest bearing	Total
2009							
Assets							
Cash on hand	-	-	-	-	-	256.746	256.746
Due from banks	1.090.669	20.341	-	-	-	61.102	1.172.112
Balances with Central Bank	2.303.561	-	-	-	-	-	2.303.561
Reserve deposits at Central Bank	440.896	-	-	-	-	414.521	855.417
Financial assets at fair value through profit or loss	35	5.440	5.916	29.937	7.842	6.792	55.962
Investment securities	5.764.884	6.955.040	2.108.124	4.422.240	2.202.515	19.100	21.471.903
Loans and advances(1)	11.259.035	5.282.456	7.180.659	6.484.221	946.682	1.019.376	32.172.429
Other assets	642	-	-	-	-	2.595.293	2.595.935
Total assets	**20.859.722**	**12.263.277**	**9.294.699**	**10.936.398**	**3.157.039**	**4.372.930**	**60.884.065**
Liabilities and equity							
Deposits from banks	1.660.704	47.079	-	-	-	215.341	1.923.124
Deposits from customers	23.998.339	10.773.960	1.548.256	1.014	-	5.634.553	41.956.122
Obligations under repurchase agreements	4.908.765	588.018	260.884	-	-	-	5.757.667
Loans and advances from banks(2)	39.283	1.091.357	831.924	20.318	2.419	1.362.018	3.347.319
Other liabilities(3)	1.056.234	63.127	95.090	42.052	123.125	6.520.205	7.899.833
Total liabilities and equity	**31.663.325**	**12.563.541**	**2.736.154**	**63.384**	**125.544**	**13.732.117**	**60.884.065**
On balance sheet interest sensitivity gap-Long	-	-	6.558.545	10.873.014	3.031.495	-	20.463.054
On balance sheet interest sensitivity gap-Short	(10.803.603)	(300.264)	-	-	-	(9.359.187)	(20.463.054)
Off balance sheet interest sensitivity gap-Long	59.200	481.000	-	-	-	-	540.200
Off balance sheet interest sensitivity gap-Short	-	-	-	(505.160)	-	-	(505.160)
Total position	**(10.744.403)**	**180.736**	**6.558.545**	**10.367.854**	**3.031.495**	**(9.359.187)**	**35.040**

(1) Non performing loans (net) are presented in other assets.

(2) The balance consists of funds provided from other financial institutions and banks.

(3) Shareholders’ equity is presented in the “non-interest bearing” column.

(Currency - In thousands of Turkish Lira)

33. 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 31 December, its capital adequacy ratio is above 12%.

The Bank's consolidated regulatory capital position at 31 December was as follows:

	2010	**2009**
Tier 1 capital	6.914.849	5.520.733
Tier 2 capital	441.271	283.750
Deductions from capital	(213.405)	(188.511)
Total regulatory capital	**7.142.715**	**5.615.972**
Risk-weighted assets	39.418.982	30.208.231
Value at market risk	1.514.638	903.613
Operational risk	5.212.748	4.369.929
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	15,48%	15,83%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14,98%	15,56%

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**	
	2010	**2009**	**2010**	**2009**
Financial assets				
Due from banks	1.128.793	1.172.112	1.128.793	1.172.112
Financial assets at fair value through profit or loss				
-Trading securities	*55.680*	*35.434*	*55.680*	*35.434*
-Derivative financial instruments	*34.307*	*20.528*	*34.307*	*20.528*
Loans and advances	44.003.264	32.172.429	44.002.119	32.268.409
Investment securities				
-Available-for-sale investment securities	*7.501.571*	*4.898.355*	*7.501.571*	*4.898.355*
-Held-to-maturity investment securities	*12.749.840*	*16.573.548*	*12.749.840*	*16.573.548*
	65.473.455	**54.872.406**	**65.472.310**	**54.968.386**
Financial liabilities				
Deposits from banks	3.223.828	1.923.124	3.223.828	1.923.124
Deposits from customers	51.330.587	41.956.122	51.389.855	42.002.831
Obligations under repurchase agreements	3.155.055	5.757.667	3.155.055	5.757.667
Loans and advances from banks	5.121.319	3.347.319	5.121.319	3.347.319
Interbank money market borrowings	125.768	19.422	125.768	19.422
Derivative financial instruments	39.151	88.956	39.151	88.956
	62.995.708	**53.092.610**	**63.054.976**	**53.139.319**

(Currency - In thousands of Turkish Lira)

33. Financial risk management (continued)

Classification of fair value measurement

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Group. This distinction brings about a fair value measurement classification generally 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.

Classification requires using observable market data if possible.

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss	53.755	34.307	1.925	89.987
-Government bonds	*53.678*	-	-	*53.678*
-Derivatives held-for-trading	-	*34.307*	-	*34.307*
-Other securities	*77*	-	*1.925*	*2.002*
Available-for-sale financial assets[(1)]	7.439.872	48.064	-	7.487.936
-Government bonds	*7.439.872*	*48.064*	-	*7.487.936*
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	39.151	-	39.151
-Derivatives financial instruments	-	*39.151*	-	*39.151*

(1) TL 13.635 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above.

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets at fair value through profit or loss	33.656	20.528	1.778	55.962
-Government bonds	*33.564*	-	-	*33.564*
-Derivatives held-for-trading	-	*20.528*	-	*20.528*
-Other securities	*92*	-	*1.778*	*1.870*
Available-for-sale financial assets[(1)]	4.808.798	77.938	-	4.886.736
-Government bonds	*4.808.798*	*77.938*	-	*4.886.736*
Financial liabilities				
Financial liabilities at fair value through profit or loss	-	88.956	-	88.956
-Derivatives financial instruments	-	*88.956*	-	*88.956*

(1) TL 11.619 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above.

(Currency - In thousands of Turkish Lira)

34. Subsequent events

Changes in required reserves ratio

1. Published in the Official Gazette No. 27884 dated 24 March 2011 and No. 2011/5 on the Amendment of the Communiqué on the Required Provisions Scale obligation dated 1April 2011, to be effective with the Turkish lira liabilities required reserve ratio for deposits/participation were differentiated according to the maturity structure of funds.

a) Turkish lira required reserve ratio

TL liabilities	Required reserve ratio (%)
Demand deposits, notice deposits, private current accounts	15
Deposits/participation accounts up to 1-month maturity	15
Deposits/participation accounts up to 3 month maturity	13
Deposits/participation accounts up to 6 month maturity	9
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	13

b) Foreign currency required reserve ratio is 11%

2. Published in the Official Gazette No. 27913 dated 22 April 2011 and 2011/6 Required Provisions of the Amendment to the Communiqué on the Scale to be valid obligation dated 29 April 2011, the Turkish lira demand required reserve ratios, and special notice deposits current accounts, term deposits up to 1 month /sharing accounts, time deposits up to 3 months/participate in special fund accounts and deposit pools/ other liabilities to non-participation fund was set.

The ratios are below:

TL liabilities	Required reserve ratio (%)
Demand deposits, notice deposits, private current accounts	16
Deposits/participation accounts up to 1-month maturity	16
Deposits/participation accounts up to 3 month maturity	13
Deposits/participation accounts up to 6 month maturity	9
Deposits/participation accounts up to 1-year maturity	6
Deposits/participation accounts with 1-year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios correspond to maturities
Other than deposits/participation accounts	13

FC liabilities	Required reserve ratio (%)
FX demand deposit, Notice deposit, FX private current accounts, Deposits/participation accounts up to 1-month, 3-month, 6-month, 1-year maturities	12
FX deposits/FX participation accounts with 1-year or longer maturity, Cumulative FX deposits/FX participation accounts	11
Special fund pools	Ratios correspond to maturities
Other liabilities up to 1-year maturity (included 1 year)	12
Other liabilities up to 3-year maturity (included 3 year)	11,5
Other liabilities longer than 1-year maturity	11

34. Subsequent events (continued)

Profit distribution

With the Bank's General Assembly decision dated on 1 March 2011, the Bank decided to distribute its net profit of the year 2010 to its shareholders on 27 May 2011. All methods and procedures for the distribution will be specified by the Bank's Board of Directors. According to the decision, the Bank will distribute first dividend amounting to TL 62.500 to its shareholders and also will distribute TL 332.986 as a second dividend to its shareholders from net profit of the year 2010 amounting to TL 2.010.393.

Explanations regarding the acquisition of a bank in Macedonia

Acquisition of the shares of Macedonia Izvozna I Kreditna Bank AD Skopje which operates in Macedonia and belongs to Demir-Halk Bank (Nederland) NV ("DHB"), approval of share transfers on Macedonian Stock Exchange ("MSE") and registration by Central Securities Depository AD Skopje ("CSD") completed as of 8 April 2011.