Türkiye Halk Bankası Anonim Şirketi
And Its Subsidiaries

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

23 March 2012

This report contains the "Independent Auditors' Report comprising 2 pages and; the "Financial statements and their explanatory notes" comprising 79 pages.

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 2011, 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 qualified audit opinion.

Basis for Qualified Opinion

The accompanying consolidated statement of financial position as at 31 December 2011 include a general reserve amounting to TL 194.000 thousands, TL 7.600 thousands of which had been recognized as expense in the prior periods and TL 186.400 thousands of which was charged to the income statement as expense in the current period, provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

Qualified Opinion

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

Istanbul, Turkey
23 March 2012

KPMG Akis Bagımsız Denetim ve SMMM AŞ

Consolidated Statement of Financial Position

As at 31 December 2011

(Currency-In thousands of Turkish Lira)

	Notes	**2011**	**2010**
Assets			
Cash on hand	*7*	486.615	379.297
Balances with Central Bank	*8*	2.825.305	2.949.703
Reserve deposits at Central Bank	*8*	3.975.813	1.320.565
Due from banks	*9*	1.572.018	1.228.793
Financial assets at fair value through profit or loss		150.883	89.987
- Trading securities	*10*	*56.560*	*55.680*
- Derivative financial instruments	*25*	*94.323*	*34.307*
Loans and advances	*11*	56.216.893	44.385.099
Insurance premium receivables	*12*	143.999	94.762
Investment securities:		23.462.459	20.251.411
- Available-for-sale investment securities	*10*	*9.398.001*	*7.501.571*
- Held-to-maturity investment securities	*10*	*14.064.458*	*12.749.840*
Investment in equity-accounted investees	*13*	149.518	183.687
Finance lease receivables	*14*	819.722	--
Property and equipment	*15*	1.320.554	1.244.407
Intangible assets	*16*	45.543	18.655
Non-current assets held for sale	*17*	65.224	98.131
Deferred tax assets	*23*	120.652	201.279
Other assets	*18*	859.560	704.243
Total assets		**92.214.758**	**73.150.019**
Liabilities			
Deposits from banks	*19*	6.980.837	3.223.828
Deposits from customers	*19*	59.247.673	51.330.587
Obligations under repurchase agreements	*20*	4.904.532	3.155.055
Loan and advances from banks	*21*	8.355.579	5.121.319
Interbank money market borrowings	*22*	37.177	125.768
Derivative financial instruments	*25*	65.358	39.151
Debt securities issued	*26*	495.611	--
Insurance contract liabilities	*12*	421.016	278.843
Provisions	*24*	648.493	405.055
Income tax payables	*23*	90.105	188.812
Deferred tax liability	*23*	1.823	--
Other liabilities	*24*	1.844.784	1.380.090
Total liabilities		**83.092.988**	**65.248.508**
Equity			
Share capital	*27*	2.578.184	2.578.184
Reserves	*28*	506.856	733.879
Retained earnings		6.029.808	4.582.964
Total equity attributable to equity holders of the Bank		**9.114.848**	**7.895.027**
Non-controlling interest		6.922	6.484
Total equity		**9.121.770**	**7.901.511**
Total liabilities and equity		**92.214.758**	**73.150.019**

The notes on pages 6 to 79 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011
(Currency-In thousands of Turkish Lira)

	Notes	**2011**	**2010**
Interest income:			
-Interest income on loans		5.250.985	4.256.240
-Interest income on securities		2.033.640	2.019.832
-Interest income on finance leases		33.526	--
-Interest income on deposits at banks		10.298	73.647
-Interest income on other money market placements		245	263
-Other interest income		10.568	13.953
		7.339.262	**6.363.935**
Interest expense:			
-Interest expense on deposits		(3.152.749)	(2.763.395)
-Interest expense on other money market deposits		(458.659)	(272.513)
-Interest expense on borrowings		(140.845)	(66.207)
-Interest expense on debt securities issued		(17.308)	--
-Other interest expense		(35.943)	(49.660)
		(3.805.504)	**(3.151.775)**
Net interest income		**3.533.758**	**3.212.160**
Fees and commission income	*33*	828.526	615.500
Fees and commission expenses	*33*	(125.497)	(105.525)
Net fee and commission income		**703.029**	**509.975**
Net trading income from securities		95.747	221.758
Net trading income / (loss) from derivative financial instruments	*23*	154.339	(72.840)
Foreign exchange losses, net		(39.827)	(15.563)
Net impairment losses on financial assets	*10,11,24*	(167.461)	(133.856)
Income from insurance operations		279.358	210.810
Cost of insurance operations		(193.173)	(134.588)
Dividend income		4.604	1.223
Other operating income	*31*	227.602	163.259
Other operating expenses	*32*	(1.980.558)	(1.523.501)
Operating profit		**2.617.418**	**2.438.837**
Share of profit of equity-accounted investees		1.409	13.318
Profit before income tax		**2.618.827**	**2.452.155**
Income tax expense	*23*	(560.326)	(506.804)
Profit for the year		**2.058.501**	**1.945.351**
Other comprehensive income, net of income tax			
Fair value reserve (available-for-sale financial assets):			
Net change in fair value		(322.092)	118.444
Net amount transferred to profit or loss		(69.655)	(31.486)
Foreign currency translation differences		19.859	69
Net gain on hedge of net investment in foreign operation, net of tax		--	10.087
Other comprehensive income for the year, net of tax		**(371.888)**	**97.114**
Total comprehensive income for the year		**1.686.613**	**2.042.465**

The notes on pages 6 to 79 are an integral part of these consolidated financial statements.

TÜRKİYE HALK BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Comprehensive Income (continued)
For the year ended 31 December 2011
(Currency-In thousands of Turkish Lira)

	Notes	2011	2010
Profit attributable to:			
Equity holders of the Bank		2.059.181	1.944.755
Non-controlling interest		(680)	596
Profit for the year		**2.058.501**	**1.945.351**
Total comprehensive income attributable to:			
Equity holders of the Bank		1.687.307	2.041.912
Non-controlling interest		(694)	553
Total comprehensive income for the year		**1.686.613**	**2.042.465**
Basic and diluted earnings per share (full TL per share)	*29*	**1,6473**	**1,5558**

The notes on pages 6 to 79 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 2011
(Currency-In thousands of Turkish Lira)

	Share capital	Reserves: Fair value reserve	Reserves: Hedging reserve	Reserves: Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
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 year								
Net profit of the year	--	--	--	--	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 year	**--**	**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)
Capital increase	--	--	--	--	--	--	--	--
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**
Balances at 1 January 2011	**2.578.184**	**113.530**	**--**	**620.349**	**4.582.964**	**7.895.027**	**6.484**	**7.901.511**
Total comprehensive income for the year								
Net profit of the year	--	--	--	--	2.059.181	2.059.181	(680)	**2.058.501**
Other comprehensive income, net of tax								
Fair value reserve (available-for-sale financial assets):								
Net change in fair value	--	(322.078)	--	--	--	(322.078)	(14)	**(322.092)**
Net amount transferred to profit or loss	--	(69.655)	--	--	--	(69.655)	--	**(69.655)**
Foreign currency translation differences	--	--	--	19.859	--	19.859	--	**19.859**
Total other comprehensive income	**--**	**(391.733)**	**--**	**19.859**	**--**	**(371.874)**	**(14)**	**(371.888)**
Total comprehensive income for the year	**--**	**(391.733)**	**--**	**19.859**	**2.059.181**	**1.687.307**	**(694)**	**1.686.613**
Transactions with the owners, recorded directly in equity								
Transfers to other reserves	--	--	--	144.851	(144.851)	--	--	--
Dividends to equity holders	--	--	--	--	(467.486)	(467.486)	(536)	**(468.022)**
Changes in ownership interests in subsidiaries								
Acquisition of a subsidiary[(1)]	--	--	--	--	--	--	1.668	**1.668**
Balances at 31 December 2011	**2.578.184**	**(278.203)**	**--**	**785.059**	**6.029.808**	**9.114.848**	**6.922**	**9.121.770**

[(1)]Effect of acquisition of Halk Banka AD, Skopje in the current year.

The notes on pages 6 to 79 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 2011
(Currency-In thousands of Turkish Lira)

	Notes	2011	2010
Cash flows from operating activities			
Profit for the year		2.058.501	1.945.351
Adjustments for:			
Depreciation and amortisation	*32*	84.889	77.707
Net impairment loss on loans and advances	*11*	288.307	288.707
Net interest income		(3.533.758)	(3.212.160)
Dividend income		(4.604)	(1.223)
Provision for employee termination benefits	*24*	60.334	50.472
Impairment losses on property and equipment	*17*	20.349	5.749
Net gain on sale of property and equipment	*31,32*	(77.553)	(61.733)
Share of profit of equity-accounted investees		(1.409)	(13.318)
Income tax expense	*23*	560.326	506.804
		(544.618)	**(413.644)**
Change in financial assets at fair value through profit or loss		4.537	(19.427)
Change in loans and advances		(11.739.739)	(11.983.097)
Change in other assets		(4.071.938)	(495.804)
Change in deposits from banks		3.517.613	1.304.598
Change in deposits from customers		7.870.751	9.336.559
Change in loans and advances from banks		2.606.309	1.783.419
Change in other liabilities		2.267.753	(2.418.880)
Interest received		6.931.011	6.564.846
Dividends received		4.604	1.215
Interest paid		(3.697.639)	(3.104.103)
Income tax paid		(528.535)	(562.814)
Employee termination benefits paid	*24*	(35.884)	(23.699)
Net cash provided from / (used in) operating activities		**2.584.225**	**(30.831)**
Cash flows from investing activities			
Acquisitions of available-for-sale investment securities		(4.569.024)	(8.872.143)
Proceeds from sale of available-for-sale investment securities		3.052.009	6.431.573
Acquisitions of held to maturity investment securities	*10*	(1.725.718)	(2.624.557)
Proceeds from sale of held to maturity investment securities	*10*	273.824	6.408.587
Acquisitions of investments in equity participations	*6*	(39.133)	(944)
Acquisitions of property and equipment	*15*	(512.305)	(328.588)
Proceeds from sale of property and equipment	*15*	355.074	134.226
Acquisitions of intangible assets	*16*	(12.738)	(10.930)
Net cash provided from / (used in) investing activities		**(3.178.011)**	**1.137.224**
Cash flows from financing activities			
Proceeds from issue of debt securities	*26*	498.671	--
Dividends paid	*28*	(467.486)	(357.821)
Net cash provided from / (used in) financing activities		**31.185**	**(357.821)**
Net increase / (decrease) in cash and cash equivalents		**(562.601)**	**748.572**
Cash and cash equivalents at 1 January	*34*	4.557.605	3.732.344
Effect of change in currency rate fluctuations on cash held		788.962	76.689
Cash and cash equivalents at 31 December	*34*	**4.783.966**	**4.557.605**

The notes on pages 6 to 79 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 2011, the Bank operates 771 branches, including 766 domestic branches, 4 branches in Cyprus and 1 in Bahrain. There is 1 representative office in Iran. The operations of Türkiye Halk Bankası AŞ and subsidiaries (the "Group") consist of banking, securities, financial leasing, 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, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje 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"), 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 ve 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.

Halk Finansal Kiralama AŞ ("Halk Leasing"), was an associate of the Bank with 47,75% of the shares and consolidated according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group's equity interest in Halk Leasing has increased from 47,75% to 99,99%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD, Skopje is operating in Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, payment operation services in the country and abroad and retail banking services.

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

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 23 March 2012.

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.

3.1. 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 year 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 11 – loans and advances
Note 12 – insurance receivables and insurance contract liabilities
Note 13 – investment in equity-accounted investees
Note 14 – finance lease receivables
Notes 15 and 16 – measurement of property and equipment and intangible assets
Note 23 – income taxes
Note 24 – other liabilities and provisions
Note 36 – financial risk management

3. Basis of preparation (continued)

3.2. 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 year as the Bank, using consistent accounting policies.

Intra-group balances, and income and expenses 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)

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

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	
		2011	**2010**	**2011**	**2010**
Halk Sigorta AŞ	Istanbul	89.18%	89.18%	89.18%	89.18%
Halk Hayat ve Emeklilik AŞ	Istanbul	94.40%	94.40%	99.46%	99.46%
Halk Yatırım Menkul Değerler AŞ	Istanbul	99.94%	99.94%	99.96%	99.94%
Halk Gayrimenkul Yatırım Ortaklığı AŞ	Istanbul	99.84%	99.84%	99.99%	99.99%
Halk Finansal Kiralama AŞ	Istanbul	99.99%	47.75%	99.99%	47.75%
Halk Banka AD, Skopje	Skopje	98.12%	--	98.12%	--
Halk Portföy Yönetimi AŞ	Istanbul	55.99%	--	98.71%	--

Halk Sigorta AŞ is included in consolidation with the financial statements as of 30 September 2011 and the other subsidiaries are included in the consolidation with the financial statements as of 31 December 2011.

(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 as at 31 December 2010.

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

	Place of incorporation	Shareholding interest	
		2011	2010
Demir-Halk Bank NV	Rotterdam	30.00%	30.00%
Halk Finansal Kiralama AŞ	Istanbul	--	47.75%
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	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 EUR. The TL/USD and TL/EUR exchange rates as at 31 December are as follows:

	2011		**2010**	
	Year end	**Average**	**Year end**	**Average**
TL / USD	1,86	1,8479	1,525	1,5033
TL / EUR	2,4135	2,4307	2,0421	1,9863

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 (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for 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 2011 and 2010.

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 re-measurement 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 – 25 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 reporting date.

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

<u>*Operating leases*</u>

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.

<u>*Finance leases*</u>

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

<u>*Operating leases*</u>

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.

<u>*Finance leases*</u>

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

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.

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 24 are reviewed regularly. The carrying value of employee termination benefit provisions as of 31 December 2011 is TL 232.014 (31 December 2010: TL 207.204).

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 2011, no technical deficit has been reported (31 December 2010: 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 insurance contract liabilities. 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 year by the weighted average number of shares outstanding during the year 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 2011, 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:

- The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 July 2012.
- IFRS 9 *Financial Instruments* could change the classification and measurement of financial assets and becomes effective for annual periods beginning on or after 1 January 2015.
- IFRS 13 *Fair Value Measurement* replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.

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

(Currency - In thousands of Turkish Lira)

5. Operating segments

The Group has five reportable segments, corporate, commercial, entrepreneur, treasury/investment and other 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.

2011	**Corporate**	**Commercial**	**Entrepreneur**	**Treasury /Investment**[2]	**Other**[1]	**Eliminations**	**Group**
Interest income	901.228	766.928	7.573.218	6.019.369	47.713	(7.969.194)	7.339.262
Interest expense	(651.343)	(540.020)	(5.458.666)	(5.111.675)	(12.994)	7.969.194	(3.805.504)
Net interest income	**249.885**	**226.908**	**2.114.552**	**907.694**	**34.719**	**--**	**3.533.758**
Net fee and commission inc.	71.346	97.301	484.841	51.679	(2.138)	--	703.029
Net trading income from securities	--	--	--	95.747	--	--	95.747
Net trading income from derivative transactions	--	--	--	156.113	(1.774)	--	154.339
Foreign exchange gain/(losses), net	--	--	--	(44.607)	4.780	--	(39.827)
Net impairment losses on loans and advances	(825)	(10.949)	(40.419)	(113.717)	(1.551)	--	(167.461)
Income from insurance operations	--	--	--	--	279.358	--	279.358
Cost of insurance operations	--	--	--	--	(193.173)	--	(193.173)
Dividend income	--	--	--	4.465	139	--	4.604
Other income	2.048	12.580	137.667	76.716	--	--	229.011
Other expenses	(14.508)	(50.787)	(850.320)	(1.049.540)	(15.403)	--	(1.980.558)
Profit before income tax	**307.946**	**275.053**	**1.846.321**	**84.550**	**104.957**	**--**	**2.618.827**
Income tax expense	--	--	--	(547.449)	(12.877)	--	(560.326)
Profit for the year	**307.946**	**275.053**	**1.846.321**	**(462.899)**	**92.080**	**--**	**2.058.501**

[1] Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ and Halk Finansal Kiralama AŞ and Halk Portföy Yönetimi AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ and Halk Banka AD, Skopje transactions are shown in "treasury/investment" column.

(Currency – In thousands of Turkish lira)

5. Operating segments (continued)

2010	Corporate	Commercial	Entrepreneur	Treasury /Investment[2]	Other[1]	Eliminations	Group
Interest income	772.010	492.956	6.074.668	5.184.380	6.606	(6.166.685)	6.363.935
Interest expense	(610.179)	(337.364)	(4.369.057)	(4.001.720)	(140)	6.166.685	(3.151.775)
Net interest income	**161.831**	**155.592**	**1.705.611**	**1.182.660**	**6.466**	**--**	**3.212.160**
Net fee and commission income	41.503	37.163	419.926	46.226	(34.843)	--	509.975
Net trading income from securities	--	--	--	221.758	--	--	221.758
Net trading loss from derivative transactions	--	--	--	(72.840)	--	--	(72.840)
Foreign exchange gain/(losses), net	--	--	--	(15.401)	(162)	--	(15.563)
Net impairment losses on loans and advances	(929)	(6.397)	(74.582)	(51.912)	(36)	--	(133.856)
Income from insurance operations	--	--	--	--	210.810	--	210.810
Cost of insurance operations	--	--	--	--	(134.588)	--	(134.588)
Dividend income	--	--	--	422	801	--	1.223
Other income	954	11.107	103.340	61.176	--	--	176.577
Other expenses	(11.644)	(45.604)	(706.439)	(738.937)	(20.877)	--	(1.523.501)
Profit before income tax	**191.715**	**151.861**	**1.447.856**	**633.152**	**27.571**	**--**	**2.452.155**
Income tax expense	--	--	--	(498.718)	(8.086)	--	(506.804)
Profit for the year	**191.715**	**151.861**	**1.447.856**	**134.434**	**19.485**	**--**	**1.945.351**

[1] Halk Hayat ve Emeklilik AŞ and Halk Sigorta AŞ transactions are shown in other column.

[2] Halk Yatırım Menkul Değerler AŞ and Halk Gayrimenkul Yatırım Ortaklığı AŞ transactions are shown in “treasury/investment” column.

(Currency – In thousands of Turkish lira)

5. Operating segments (continued)

The segment assets and liabilities as at 31 December 2011 are as follows:

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment[1]	Other	Group
Segment assets	7.123.142	8.458.303	35.996.600	39.158.371	1.328.824	92.065.240
Investment in equity-accounted investees	--	--	--	149.518	--	149.518
Total assets	**7.123.142**	**8.458.303**	**35.996.600**	**39.307.889**	**1.328.824**	**92.214.758**
Segment liabilities	6.989.797	3.079.263	48.982.381	22.905.281	1.136.266	83.092.988
Total liabilities	**6.989.797**	**3.079.263**	**48.982.381**	**22.905.281**	**1.136.266**	**83.092.988**

(1) Property and equipment, intangible assets, non-current assets held for sale and deferred tax assets of the Group are presented under "Treasury / Investment" column.

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

Assets and liabilities	Corporate	Commercial	Entrepreneur	Treasury /Investment[1]	Other	Group
Segment assets	7.015.241	5.858.411	28.214.424	31.327.953	550.303	72.966.332
Investment in equity-accounted investees	--	--	--	183.687	--	183.687
Total assets	**7.015.241**	**5.858.411**	**28.214.424**	**31.511.640**	**550.303**	**73.150.019**
Segment liabilities	7.256.397	2.768.067	40.942.573	13.987.844	293.627	65.248.508
Total liabilities	**7.256.397**	**2.768.067**	**40.942.573**	**13.987.844**	**293.627**	**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 "Treasury / Investment" 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. 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.

2011	**Turkey**	**European Union**	**USA and Canada**	**OECD Countries**	**Other**	**Total**
Other segment information						
Segment assets	90.429.188	1.175.935	40.803	12.245	556.587	92.214.758
Total assets	**90.429.188**	**1.175.935**	**40.803**	**12.245**	**556.587**	**92.214.758**
Segment liabilities	72.155.487	3.006.754	2.146.696	253.539	5.530.512	83.092.988
Total liabilities	**72.155.487**	**3.006.754**	**2.146.696**	**253.539**	**5.530.512**	**83.092.988**
Acquisition of segment assets						
Property and equipment	512.305	--	--	--	--	512.305
Intangible assets	12.738	--	--	--	--	12.738

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

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

(Currency – In thousands of Turkish lira)

6. Acquisition of subsidiaries

Halk Finansal Kiralama AŞ

On 27 May 2011, the Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company. As a result, the Group's equity interest in Halk Leasing increased from 47,75% to 99,99%.

Taking control of Halk Leasing will enable the Group to penetrate the financial leasing sector with using the Bank's customer portfolio. Therefore, the Group expects to increase its market share in the financial leasing market.

If the acquisition had occurred on 1 January 2011, management estimates that consolidated profit for the year would have been TL 2.070.779. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2011.

The Bank acquired 52,24% of the shares and voting interests of Halk Leasing in cash amounting to TL 62.663.

Identifiable assets acquired and liabilities assumed

	30 June 2011
Finance lease receivables	659.783
Deferred tax assets	20.358
Cash and cash equivalents	4.698
Tangible assets	4.522
Intangible assets	60
Other assets	36.888
Loans and advances from banks	(597.495)
Other liabilities	(20.962)
Total net identifiable assets	**107.852**

As at 30 June 2011, consideration paid for the acquisition of Halk Finansal Kiralama AŞ by the Bank is approximately equivalent to the fair value of its identifiable assets acquired and liabilities assumed. Therefore, no goodwill or negative goodwill has been recognised as a result of Halk Finansal Kiralama AŞ acquisition.

(Currency – In thousands of Turkish lira)

6. Acquisition of subsidiaries (continued)

Halk Banka AD, Skopje

On 8 April 2011, the Group obtained the control of Halk Banka AD, Skopje by acquiring 91,56% of the shares and voting interests in the company. Halk Banka AD, Skopje is operating in Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, payment operation services in the country and abroad and retail banking services.

Taking control of Halk Banka AD, Skopje will enable the Group to operate in Republic of Macedonia.

The Bank acquired 91,56% of the shares and voting interests of Halk Banka AD, Skopje in cash amounting to TL 42.145.

Identifiable assets acquired and liabilities assumed

	30 June 2011
Loans and advances	191.400
Cash and cash equivalents	60.977
Investment securities	34.445
Property and equipment	21.731
Intangible assets	17.280
Other assets	22.496
Deposits	(236.092)
Loans and advances from banks	(58.430)
Deferred tax liabilities	(1.949)
Other liabilities	(5.828)
Total net identifiable assets	**46.030**

The fair value of intangible assets (Halk Banka AD, Skopje's banking license, patent and customer relations) and property and equipment has been determined according to an independent valuation.

As at 30 June 2011, consideration paid for the acquisition of Halk Banka AD, Skopje by the Bank is approximately equivalent to the fair value of its identifiable assets acquired and liabilities assumed. Therefore, no goodwill or negative goodwill has been recognised as a result of Halk Banka AD, Skopje acquisition.

Net cash outflow

Net cash outflow due to acquisition of Halk Banka AD, Skopje and Halk Leasing is as follows:

Consideration paid	104.808
Less: Cash associated with purchased assets	(65.675)
Net cash outflow due to acquisition	**39.133**

Acquisition related costs

The Group incurred acquisition related costs of TL 233 related to external legal fees and due diligence costs. The legal fees and due diligence costs have been included other operating expenses in the Group's consolidated statement comprehensive income.

(Currency – In thousands of Turkish lira)

7. Cash on hand

At 31 December, cash on hand comprised the following:

	2011	2010
Cash on hand		
- Turkish lira	*386.373*	*316.079*
- Foreign currency	*97.597*	*62.649*
Precious metals (gold)	2.630	557
Other liquid assets	15	12
Total cash on hand	**486.615**	**379.297**

There is no blockage or restriction on the use of cash and cash equivalents as at 31 December 2011 and 2010.

8. Balances with Central Bank

	2011	2010
Unrestricted balances with Central Bank		
Demand deposits – Turkish Lira	2.120.213	2.458.657
Demand deposits – Foreign currency	705.092	491.046
	2.825.305	**2.949.703**
Reserve deposits		
Demand deposits – Turkish Lira[(1)]	4.611	7.356
Demand deposits – Foreign currency	3.971.202	1.313.209
	3.975.813	**1.320.565**
Total balances with Central Bank	**6.801.118**	**4.270.268**

[(1)]Contains TRNC Branch's reserve deposit.

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 earning.

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 vary between 5%-11% and 6%-11% (31 December 2010: 6% and 11%), respectively, depending on their maturities.

Central Bank of TRNC, required reserve ratio is 8% for Turkish currency liabilities and 8% for foreign currency liabilities.

Central Bank of Macedonia, required reserve ratio is 10% for Macedonian currency liabilities and 13% for foreign currency liabilities.

(Currency – In thousands of Turkish lira)

9. Due from banks

	2011	**2010**
Domestic banks		
Demand deposits – Turkish Lira	15.967	25.086
Demand deposits – Foreign currency	362	1.802
Time deposits – Turkish Lira	11.291	57.218
Time deposits – Foreign currency	602.557	720.330
	630.177	**804.436**
Foreign banks		
Demand deposits – Turkish lira	11.310	21.028
Demand deposits – Foreign currency	123.997	53.548
Time deposits – Foreign currency	773.221	133.656
	908.528	**208.232**
Money market placements[(1)]	**33.313**	**216.125**
Total due from banks	**1.572.018**	**1.228.793**

[(1)]Money market placements include interest income accrual amounting to TL 56 (31 December 2010: TL 135).

For cash flow purposes, the bank balances and money market placements having original maturity of less than 3 months were classified as cash and cash equivalents. These balances amounting to TL 1.572.018 as at 31 December 2011 (31 December 2010: TL 1.012.615).

10. 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:

	2011	**2010**
Turkish Government bonds and Eurobonds issued by the Turkish Government	32.848	53.755
Bonds issued by financial institutions	23.712	1.925
Total of financial assets at fair value through profit or loss	**56.560**	**55.680**

(Currency – In thousands of Turkish lira)

10. Securities portfolio (continued)

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

	2011	2010
Treasury bills and government bonds	9.374.849	7.481.355
Quoted bills and bonds on a stock exchange	*9.485.038*	*7.484.123*
Fair value change	*(110.189)*	*(2.768)*
Equity shares	23.152	20.216
Share certificates not quoted on a stock exchange	*36.017*	*33.081*
Allowance for impairment on equity shares	*(12.865)*	*(12.865)*
Total of available for sale securities	**9.398.001**	**7.501.571**

Available-for-sale securities include securities given as collateral amounting to TL 90.932 (31 December 2010: None). Available-for-sale investment securities include securities pledged under repurchase agreements amounting to TL 214.821 (31 December 2010: None).

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

	2011	2010
Macar-Halk Bank Magysrorszagi VolksBank RT	19.344	19.344
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	3.030	2.030
Uluslararası Garagum Ortaklar Bankası	1.851	1.851
Other	3.040	1.104
Allowance for impairment on equity securities	(12.865)	(12.865)
Total equity shares in available for sale investments	**23.152**	**20.216**

The details of allowance for impairment are as follows:

	2011	2010
Macar-Halk Bank Magysrorszagi VolksBank RT	10.708	10.708
Uluslararası Garagum Ortaklar Bankası	1.627	1.627
Bankalararası Kart Merkezi AŞ	506	506
Kredi Garanti Fonu İşletme ve Araştırma AŞ	24	24
Allowance for impairment on equity securities	**12.865**	**12.865**

(Currency – In thousands of Turkish lira)

10. Securities portfolio (continued)

Held to maturity investment securities comprised the following items:

	2011	2010
Treasury bills and government bonds	14.064.458	12.749.840
Total	**14.064.458**	**12.749.840**

Held to maturity investment securities include securities pledged under repurchase agreements and given as collateral amounting to TL 4.889.910 and TL 3.060.890 (31 December 2010: TL 3.260.280 and TL 2.376.679), respectively.

As of 31 December 2011, the Group reclassified TL 734.142 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 and the carrying value of these financial assets approximate their maturity value (31 December 2010: TL 1.854.076).

	2011	2010
Held to maturities portfolio:		
Quoted on a stock exchange	11.618.046	10.360.874
Not quoted	2.446.412	2.388.966
Total	**14.064.458**	**12.749.840**

The movements of held to maturity investment securities for the years ended 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
Beginning balance	12.749.840	16.573.548
Foreign currency differences	329.521	(14.112)
Purchases during the year(1)	1.949.361	3.127.589
Disposals through sales and redemptions(2)	(1.007.966)	(6.937.185)
Securities acquired through business combinations	43.702	--
Balance at the of the year	**14.064.458**	**12.749.840**

(1) Differences between current period interest income accrual amounting to TL 726.675 and prior year interest accrual amounting to TL 503.032 has been included in purchases row.

(2) In accordance with the tainting rules defined in paragraph 9 of International Accounting Standards 39-Financial Instruments: Recognition and Measurement, as of 31 December 2011, the Bank reclassified TL 734.142 of financial assets from held to maturity investments portfolio to available for sale portfolio. Related amount was presented in “Disposals through sales and redemptions” row.

(Currency – In thousands of Turkish lira)

11. Loans and advances

	2011	2010
Short term loans		
Guaranteed export loans	2.425.321	2.256.845
Other guaranteed loans	9.679.453	9.377.384
Other non-guaranteed loans	1.919.728	2.833.278
Loans provided to financial sector	374.393	2.046.889
Loans provided to foreign institutions	237.419	116.308
Non-guaranteed export loans	837.326	306.723
Interest accruals	199.533	172.770
	15.673.173	**17.110.197**
Medium and long term loans		
Guaranteed other investment and operating loans	25.015.441	16.340.410
Other non-guaranteed loans	14.515.048	10.123.117
Loans given to foreign institutions	173.376	109.691
Loans given to financial sector	121.175	48.296
Interest accruals	515.619	271.553
	40.340.659	**26.893.067**
Total performing loans and advances	**56.013.832**	**44.003.264**
Non-performing loans and advances and allowance for impairment		
Gross non-performing loans	1.680.884	1.757.753
Specific allowance for impairment on loans	(1.199.026)	(1.065.241)
Portfolio allowance for impairment on loans	(278.797)	(310.677)
Loans and advances, net	**56.216.893**	**44.385.099**

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

	2011	2010
Balance on 1 January	(1.375.918)	(1.297.478)
Net impairment loss for the year:	(101.905)	(78.440)
- *Charge for the period*	*(288.307)*	*(288.707)*
- *Recoveries and reversals*	*186.402*	*210.267*
Balance at 31 December	**(1.477.823)**	**(1.375.918)**

(Currency – In thousands of Turkish lira)

12. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December, insurance receivables comprised the following:

	2011	**2010**
Receivables from reinsurance and insurance companies	104.318	46.934
Receivables from agencies, brokers and intermediaries	37.477	45.852
Cash deposited to insurance and reinsurance companies	16.435	15.717
Receivables from policyholders	--	17
Total insurance receivables	**158.230**	**108.520**
Allowance for non-performing insurance receivables	(14.231)	(13.758)
Insurance receivables, net	**143.999**	**94.762**

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

	2011	**2010**
Mortgage notes	17.576	17.776
Letters of guarantees	4.263	3.816
Treasury bills and government bonds	796	481
Other guarantees	--	55
Total	**22.635**	**22.128**

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

	2011	**2010**
Balance at 1 January	13.758	12.845
Impairment loss recognised	473	918
Collections during the year	--	(5)
Balance at 31 December	**14.231**	**13.758**

(Currency – In thousands of Turkish lira)

12. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

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

	2011	2010
Life mathematical reserve	157.321	99.803
Unearned premiums reserve	110.946	92.494
Claims provision	134.064	64.507
Unexpired risk reserve	8.792	2.725
Other technical reserves	11	3.772
Total technical reserve	**411.134**	**263.301**
Other insurance liabilities	9.882	15.542
Total insurance contract liabilities	**421.016**	**278.843**

13. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	2011	2010
Demir-Halk Bank NV	131.273	115.566
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	14.344	13.232
Finansal Teknoloji Hizmetleri AŞ	1.147	1.014
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	2.754	2.445
Halk Finansal Kiralama AŞ	--	51.430
Equity accounted investees	**149.518**	**183.687**

(Currency – In thousands of Turkish lira)

13. 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 year
2011				
Demir-Halk Bank NV	30.00%	4.127.201	437.577	(691)
Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	31.47%	45.752	45.579	3.533
Finansal Teknoloji Hizmetleri AŞ	24.00%	10.716	4.781	555
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	24.00%	22.331	11.477	1.547
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

14. Finance lease receivables

Maturity structure of investments on financial lease:

		2011
	Gross	Net
Less than 1 year	207.581	134.405
Between 1-4 years	623.771	550.873
More than 4 years	147.421	134.444
Total	**978.773**	**819.722**

Information on gross investments of financial lease:

	2011
Gross financial lease investment	978.773
Unearned revenues from financial lease	(159.051)
Total	**819.722**

Information on receivables from non- performing loans of financial lease:

	2011
Non-performing financial lease receivables	60.061
Specific provisions	(32.620)
Total	**27.441**

(Currency – In thousands of Turkish lira)

15. Property and equipment

	Land and buildings	Lease hold improvements	Tangible assets obtained for non performing loans	Other movable tangible assets	Total
Cost					
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**
Balance at 1 January 2011	951.505	99.757	301.894	433.154	1.786.310
Additions	22.103	29.103	333.416	127.683	512.305
Acquired through business combinations	--	660	--	27.915	28.575
Disposals	(40.796)	(9.166)	(198.727)	(106.385)	(355.074)
Transfers	(15.162)	--	(87.378)	--	(102.540)
Balance at 31 December 2011	**917.650**	**120.354**	**349.205**	**482.367**	**1.869.576**
Depreciation and impairment losses					
Balance at 1 January 2010	(177.376)	(27.682)	(8.388)	(393.255)	(606.701)
Depreciation for the year	(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)**
Balance at 1 January 2011	(179.460)	(34.506)	(17.455)	(310.482)	(541.903)
Depreciation for the year	(13.221)	(20.215)	(3.640)	(41.494)	(78.570)
Acquired through business combinations	--	(131)	--	(2.191)	(2.322)
Disposals	5.290	6.210	11.038	48.003	70.541
Transfers	4.741	--	(1.509)	--	3.232
Balance at 31 December 2011	**(182.650)**	**(48.642)**	**(11.566)**	**(306.164)**	**(549.022)**
Carrying amounts					
At 1 January 2010	**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**
At 31 December 2011	**735.000**	**71.712**	**337.639**	**176.203**	**1.320.554**

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 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)

16. Intangible assets

	Intangible assets	Total
Cost		
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**
Balance at 1 January 2011	23.640	23.640
Additions	12.738	12.738
Acquired through business combinations	17.948	17.948
Disposals	(2.071)	(2.071)
Balance at 31 December 2011	**52.255**	**52.255**
Amortisation		
Balance at 1 January 2010	(3.873)	(3.873)
Amortisation for the year	(1.802)	(1.802)
Disposals	690	690
Balance at 31 December 2010	**(4.985)**	**(4.985)**
Opening balance, 1 January 2011	(4.985)	(4.985)
Amortisation for the year	(2.434)	(2.434)
Acquired through business combinations	(608)	(608)
Disposals	1.315	1.315
Balance at 31 December 2011	**(6.712)**	**(6.712)**
Carrying amounts		
At 1 January 2010	**12.089**	**12.089**
At 31 December 2010	**18.655**	**18.655**
At 31 December 2011	**45.543**	**45.543**

17. Non-current assets held for sale

	2011	2010
Balance at 1 January	98.131	84.091
Additions/Transfers (net)	102.540	105.564
Disposals	(116.712)	(92.652)
Acquired through business combinations	3.451	--
Depreciation	(1.837)	--
Impairment loss recognized and reversals	(20.349)	1.128
Balance at 31 December	**65.224**	**98.131**

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 Turkish Banking Law. This three year period can be extended by a legal permission from the regulators.

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)

18. Other assets

At 31 December, other assets comprised the following:

	2011	2010
Prepaid expense	201.289	264.187
Clearing house account	166.151	181.430
Receivables from credit card payments	157.768	71.971
Advances given for lease transactions	69.811	--
Receivables from asset sale on credit terms	47.999	40.467
Cash guarantees given	22.585	2.148
Guarantees given for derivative financial instruments	10.379	15.875
Other assets	183.578	128.165
Total other assets	**859.560**	**704.243**

19. Deposits

At 31 December, deposits from banks comprised the following:

	2011	2010
Call deposits	3.040.932	1.175.579
Time deposits	3.939.905	2.048.249
Deposits from banks	**6.980.837**	**3.223.828**

As at 31 December 2011, deposits from banks include TL accounts amounting to TL 3.393.654 (31 December 2010: TL 1.384.673) and foreign currency accounts amounting to TL 3.587.183 (31 December 2010: TL 1.839.155) in total.

At 31 December, deposits from customers comprised the following:

	2011		2010	
	Demand	**Time**	**Demand**	**Time**
Saving deposits	2.134.100	22.680.551	1.789.824	20.362.013
Foreign currency deposits	2.058.800	14.486.701	1.733.953	11.058.278
Commercial deposits	1.954.624	6.193.105	1.839.250	7.633.554
Public institutions and other deposits	4.134.370	5.605.422	2.138.439	4.775.276
Deposits from customers	**10.281.894**	**48.965.779**	**7.501.466**	**43.829.121**

(Currency – In thousands of Turkish lira)

20. 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-earning assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	2011	2010
Obligations under repurchase agreements	4.904.532	3.155.055
Total	**4.904.532**	**3.155.055**

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 2011, the maturities of the obligations varied from one day to 1 year (31 December 2010: one day to 1 year).

21. Loan and advances from banks

At 31 December, loans and advances from banks comprised the following:

	2011	2010
Borrowings	7.010.345	3.826.087
Funds	1.345.234	1.295.232
Total	**8.355.579**	**5.121.319**

At 31 December, funds borrowed comprised the following:

	2011		2010	
	Short term	**Long term**	**Short term**	**Long term**
Loans and advances from domestic banks and institutions	515.153	314.251	235.795	21.143
Loans and advances from foreign banks and institutions	2.732.269	3.448.672	1.726.169	1.842.980
Funds borrowed	**3.247.422**	**3.762.923**	**1.961.964**	**1.864.123**

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 2011 (31 December 2010: None).

Funds borrowed include 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.

(Currency – In thousands of Turkish lira)

21. Loan and advances from banks (continued)

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

Fixed rates			
2011	**Amount**	**Interest rate**	**Maturity**
USD borrowings	2.059.352	0% - 5,69%	January 2012 − September 2038
EUR borrowings	2.780.595	0,567% - 6,22%	January 2012 − September 2038
TL borrowings	435.310	0% - 10%	January 2012 − June 2020
Other borrowings	1.600	0,2776% - 3,497%	January 2012 − December 2012
Total	**5.276.857**		

Floating rates			
2011	**Amount**	**Interest rate**	**Maturity**
USD borrowings	269.700	Libor + 0,60	July 2012
EUR borrowings	1.463.788	Euribor + 0,60	July 2012
Total	**1.733.488**		

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**		

As of 31 December 2011 borrowings from foreign banks and institutions include syndicated loans amounting to USD 145.000 and EUR 606.500 (31 December 2010: USD 130.000 and EUR 349.000).

(Currency – In thousands of Turkish lira)

22. Interbank money market borrowings

	2011	**2010**
Payables to stock exchange money market	32.236	30.058
On behalf of customer	4.941	95.710
Total	**37.177**	**125.768**

Payables to stock exchange money markets have a maturity of 34 days (31 December 2010: 3-47 days) with 11,80% and 11,90% (31 December 2010: 6,85% and 7,30%) of interest rates.

23. Taxation

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

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

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

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

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

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are 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 non-resident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions is 15%. In applying the withholding tax rates on dividend payments to the non-resident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

(Currency – In thousands of Turkish lira)

23. 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:

	2011	**2010**
TRNC	10%	10%
Bahrain	--	--
Republic of Macedonia	10%	--

As of 31 December 2011 and 2010 advance income taxes are netted off with the current income tax liability as stated below:

	2011	**2010**
Income tax liability	381.115	539.199
Income tax paid in advance	(291.010)	(350.387)
Income tax payables	**90.105**	**188.812**

(Currency – In thousands of Turkish lira)

23. Taxation (continued)

Deferred taxes

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

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

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:

	2011	2010
Provisions	77.384	59.815
Portfolio and specific provision for impairment on loans and advances	24.041	(256)
Valuation differences on financial assets and liabilities	(4.425)	132.738
Other	23.652	8.982
Deferred tax assets, net	**120.652**	**201.279**

As of 31 December 2011, the Group also has net deferred tax liability amounting to TL 1.823 (31 December 2010: None).

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

	2011	2010
Deferred tax assets, net at 1 January	201.279	183.106
Deferred income tax recognised in other comprehensive income	98.472	(19.143)
Deferred tax recognised in the income statement	(179.099)	37.316
Deferred tax assets, net at 31 December	**120.652**	**201.279**

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

	2011	2010
Current tax expense		
Current year	381.227	544.120
Deferred tax expense/ (benefit)		
Origination and reversal of temporary differences	179.099	(37.316)
Total income tax expense	**560.326**	**506.804**

(Currency – In thousands of Turkish lira)

23. Taxation (continued)

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:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**2.618.827**		**2.452.155**	
Income tax using the Bank's domestic tax rate	523.765	20,00	490.431	20,00
Tax exempt income	(56.606)	(2,16)	(33.195)	(1,35)
Non-deductible expenses	93.167	3,56	49.568	2,02
	560.326	**21,40**	**506.804**	**20,67**

24. Other liabilities and provisions

	2011	2010
Other liabilities		
Cooperative deposit blockages	635.768	423.777
Cheques clearance account	336.800	322.832
Credit card members restricted account	372.638	257.642
Unearned revenue	128.531	126.947
Taxes and dues payable	202.039	85.337
Banking transactions	77.309	54.174
Import transfer orders	12.220	21.448
Collaterals received for derivative instruments	10.736	15.195
Resource utilization support fund	21.111	14.779
Payment orders	18.676	10.362
Trade payables to vendors	16.729	6.005
Debts for securities investment fund	4.240	2.113
Obligations under finance leases	--	566
Other liabilities	7.987	38.913
	1.844.784	**1.380.090**
Provisions		
Employee termination benefits	232.014	207.204
Unused vacation provision	88.276	69.401
Provision on non-cash loans	41.419	46.665
Provision on lawsuits	21.437	22.493
Provisions for credit card bonuses	6.111	6.299
Other[(1)]	259.236	52.993
	648.493	**405.055**

[(1)] As of 31 December 2011 other provisions includes a general reserve amounting to TL 194.000 provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

(Currency – In thousands of Turkish lira)

24. 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 full TL 2,731.85 and full TL 2.517,01 at 31 December 2011 and 2010 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 full TL 2,805.04 effective 1 January 2012.

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

	2011	**2010**
Discount rate for pension plan liabilities	9,2% - 11,55%	10,00%
Expected rates of salary increase	2,00%	2,00%
Inflation	4,5% - 8,75%	5,10%

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

	2011	**2010**
Defined benefit obligation at 1 January	207.204	180.431
Acquired through business combinations	360	--
Current service cost	16.858	12.065
Interest cost	19.756	19.246
Actuarial losses	14.944	19.161
Payment/ Limitation of benefits/ Loss (Gain) because of discharge	8.776	--
Benefits paid	(35.884)	(23.699)
Defined benefit obligation at 31 December	**232.014**	**207.204**

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

	2011	**2010**
Current service cost	16.858	12.065
Interest cost	19.756	19.246
Amortization of unrecognized net loss	14.944	19.161
Payment/ Limitation of benefits/ Loss (Gain) because of discharge	8.776	--
	60.334	**50.472**

(Currency – In thousands of Turkish lira)

25. 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.

	2011			2010		
	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	31.800	19.443	3.812.283	13.726	24.161	3.179.800
Other swap contracts	57.170	--	2.338.799	9.812	13.513	426.820
Other	5.353	45.915	2.662.227	10.769	1.477	1.885.623
Total	**94.323**	**65.358**	**8.813.309**	**34.307**	**39.151**	**5.492.243**

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

26. Debt securities issued

	2011	**2010**
Debt securities issued at amortized cost	495.611	--
Total of debt securities issued	**495.611**	**--**

On 1 August 2011, the debt securities amounting to TL 500.000 of nominal values with a maturity of 179 days were issued by the Bank.

27. Share capital

	2011	**2010**
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**

28. 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.

Other reserves

Other reserves consist of legal reserves kept within the Group and translation reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. The legal reserves as at 31 December 2011 is TL 765.200 (31 December 2010: TL 620.349).

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations. The translation reserve as at 31 December 2011 is TL 19.859.

Dividends paid and proposed

As of the reporting date, the Bank has paid TL 467.486 out of 2010 profit. Bank General Assembly regarding profit distribution out of 2011 profit has not been completed, yet (31 December 2010: TL 357.821).

(Currency – In thousands of Turkish lira)

29. 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 2011 and 2010.

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

	2011	2010
Net profit attributable to ordinary shareholders for basic earnings per share	2.059.181	1.944.755
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)	**1,6473**	**1,5558**

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.

30. 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)

30. 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 2011 and 2010 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:

	2011	**2010**
Salaries and short-term benefits	9.004	6.380

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

2011	**Cash loans receivable**	**Non-cash loans receivable**	**Deposits**	**Interest income**	**Interest expense**	**Commission income**
Demir-Halk Bank NV	--	93	--	--	--	--
Kredi Garanti Fonu İşletme ve Araştırma AŞ	--	1.784	31.719	--	3.055	83
KOBİ Girişim Sermayesi Yatırım Ortaklığı AŞ	--	2.600	27.138	--	2.326	13
Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sis. AŞ	--	--	3.201	--	271	--
Mersin Serbest Bölge İşletmesi AŞ	--	--	1.462	--	50	--
Kredi Kayıt Bürosu AŞ	--	--	20.510	--	96	--
Total	**--**	**4.477**	**84.030**	**--**	**5.798**	**96**

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	--
Bankalararası Kart Merkezi AŞ	--	--	--	--	--	--
Total	**75.704**	**27.212**	**59.128**	**3.160**	**4.052**	**79**

(Currency – In thousands of Turkish lira)

31. Other operating income

	2011	2010
Reversal from prior years' provision	87.061	64.644
Gain on sale of property and equipment	79.653	66.891
Rent income	17.248	6.605
Income from other banking services	13.198	9.338
Other	30.442	15.781
Total	**227.602**	**163.259**

32. Other operating expenses

	2011	2010
Staff costs:		
Personnel expenses	761.503	689.537
Retirement pay provision	60.334	50.472
Administrative expenses	609.371	374.563
Depreciation expense	84.889	77.707
Taxes, duties, charges and premium expenses	69.747	77.420
Saving deposit insurance fund expenses	84.127	65.318
Loss on sale of property and equipment	2.100	5.158
Provision expense for lawsuits	4.217	1.021
Other(1)	304.270	182.305
Total	**1.980.558**	**1.523.501**

(1) Includes current year charge of general reserve amounting to TL 186.400 provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in economy or market conditions.

33. Fees and commission income and expenses

	2011	2010
Fees and commission income		
Banking	807.331	596.240
Brokerage	21.195	19.260
Total	**828.526**	**615.500**
Fees and commission expenses		
Banking	(125.064)	(105.275)
Brokerage	(433)	(250)
Total	**(125.497)**	**(105.525)**

(Currency – In thousands of Turkish lira)

34. Additional cash flow information

	2011	**2010**
Cash on hand	486.615	379.297
Due from banks (with original maturity of less than 3 months)	1.535.678	1.012.615
Money market placements	33.257	215.990
Bank blockage balance[(1)]	(96.889)	--
Unrestricted balances with Central Bank	2.825.305	2.949.703
Cash and cash equivalents in the statement of cash flows	**4.783.966**	**4.557.605**

(1) Blocked account for technical reserves of Halk Hayat ve Emeklilik AŞ amounting to TL 96.889, which is given as collateral to Under secretariat of Treasury of Republic of Turkey.

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.

35. 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:

	2011	**2010**
Letters of guarantee issued	12.722.321	8.943.017
Letters of credit	4.081.908	3.377.338
Acceptance credits	627.992	149.594
Other	423.056	256.403
Total non-cash loans	**17.855.277**	**12.726.352**
Other commitments	5.942.458	5.137.450
Credit card limit commitments	4.645.441	4.116.008
Total	**28.443.176**	**21.979.810**

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 eight investment funds, which were established under the regulations of the Capital Markets Board of Turkey. Halk Portföy Yönetimi AŞ is engaging in fund management of six of Bank's funds; and Halk Yatırım Menkul Değerler AŞ is engaging in fund management of two of Bank's funds. 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.

35. Commitments and contingencies (continued)

Letters of guarantee given to Istanbul Stock Exchange (ISE) and Istanbul Gold Market (IGM)

As of 31 December 2011, according to the general requirements of the ISE, letters of guarantee amounting to TL 106.000 (31 December 2010: TL 55.162) was obtained from various local banks and were provided to ISE for bond and stock market transactions by the Group.

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

427 branch premises of the Bank are lease holder under operational leases. The lease periods vary between 1 and 10 years. There are no restrictions placed upon the lessee by entering into these leases.

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

36. 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.

36. Financial risk management (continued)

Credit risk

The Group 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 Group'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.

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 21,35% (31 December 2010: 23,99%).

The percentage of the top 100 non-cash loan clients of the Bank to the total non-cash loan portfolio is 57,78% (31 December 2010: 59,89%).

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 17,40% (31 December 2010: 18,28%).

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 favourable 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.

36. Financial risk management (continued)

Credit risk (continued)

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 favourable 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)

36. Financial risk management (continued)

Credit risk (continued)

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

	2011	
	Cash	**Non-cash**
Agricultural	715.704	23.474
Farming and raising livestock	*700.084*	*23.123*
Forestry	*1.937*	*110*
Fishing	*13.683*	*241*
Manufacturing	15.850.641	7.812.125
Mining	*256.025*	*206.659*
Production	*14.932.379*	*7.047.852*
Electric, gas and water	*662.237*	*557.614*
Construction	1.635.525	4.535.919
Services	19.696.425	5.236.641
Wholesale and retail trade	*9.150.320*	*2.222.364*
Hotel, food and beverage services	*1.531.440*	*66.487*
Transportation and telecommunication	*2.646.084*	*166.752*
Financial Institutions	*806.464*	*1.964.136*
Real estate and renting services	*4.551.322*	*785.973*
Self-employment services	*289.200*	*5.683*
Education services	*130.720*	*8.199*
Health and social services	*590.875*	*17.047*
Other	18.115.537	247.118
Total loans	**56.013.832**	**17.855.277**
Non-performing loans	1.680.884	--
Less: allowance for losses on loans and advances	(1.477.823)	--
Total	**56.216.893**	**17.855.277**

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Credit risk (continued)

	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)

36. 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]	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Loans according to borrowers:						
Private sector	37.965.175	28.466.360	406.269	2.074.764	31.552	20.844
Public sector	1.777.776	1.630.707	--	--	22.566.015	19.395.070
Banks	--	--	89.299	60.927	52.924	--
Retail	15.060.161	11.326.183	--	--	--	--
Share certificates	--	--	--	--	--	--
Total	**54.803.112**	**41.423.250**	**495.568**	**2.135.691**	**22.650.491**	**19.415.914**
Information according to geographical concentration:						
Domestic	54.185.004	41.237.747	495.568	2.095.185	22.573.940	19.405.128
EU countries	218.113	66.885	--	--	8.805	8.636
OECD countries[2]	187	--	--	--	--	--
Offshore Banking Regions	--	--	--	--	--	--
USD, Canada	--	--	--	--	--	--
Other countries	399.808	118.618	--	40.506	67.746	2.150
Total	**54.803.112**	**41.423.250**	**495.568**	**2.135.691**	**22.650.491**	**19.415.914**

(1) Includes marketable securities designated at fair value through profit or loss, available-for-sale, held-to-maturity and derivative financial assets. Excludes TL 868.528 of accrual of marketable securities (31 December 2010: TL 891.177).

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

(3) Interest and income accruals for the loans amounting to TL 715.152 are not included in the table above (31 December 2010: TL 444.323).

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

2011	**Neither past due nor impaired**	**Past due or individually impaired**	**Total**
Receivables from banks	1.538.705	--	1.538.705
Financial assets at fair value through profit or loss	150.883	--	150.883
Loans[1]	54.488.375	442.957	54.931.332
-Corporate lending	*21.576.240*	*31.756*	*21.607.996*
-SME lending[2]	*16.079.234*	*247.973*	*16.327.207*
-Consumer lending	*14.901.670*	*162.490*	*15.064.160*
-Other	*1.931.231*	*738*	*1.931.969*
Available for sale investments	9.398.001	--	9.398.001
Held to maturity investments	14.064.458	--	14.064.458
Finance lease receivables	782.487	37.235	819.722

(1) Loans of which risk does not belong to the Group TL 1.285.561 are not included in table above.
(2) Financial assets which are overdue or which have value loss are presented in terms of net values.

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Credit risk (continued)

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.

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

2011	Less than 30 days	Between 31 and 60 days	Between 61 and 90 days	Total
Loans and receivables[1]				
Corporate loans	244	1.537	1.768	3.549
SME loans	79.147	26.178	13.677	119.002
Consumer loans	12.901	4.827	2.245	19.973
Credit cards	79.797	13.359	4.216	97.372
Total	**172.089**	**45.901**	**21.906**	**239.896**

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

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
Other	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.

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Credit risk (continued)

As of 31 December 2011, the fair value of collaterals held against the past due but not yet impaired loans amounts to TL 660.783. The net value and type of the collaterals is as follows:

Collateral type	2011	2010
Real estate mortgage	428.717	640.047
Salary pledge, vehicle pledge and pledge of commercial undertaking	53.484	51.711
Financial collaterals (Cash, securities pledge, etc.)	33	283
Cheque, bills	5.090	12.447
Suretyships	92.888	145.568
Other	80.571	56.830
Total	**660.783**	**906.886**

(1) 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:

	2011	2010
Loans and receivables(1)		
Corporate loans	72.027	64.731
SME loans	42.917	77.407
Consumer loans	22.260	16.149
Other	201	186
Total	**137.405**	**158.473**

(1) As of 31 December 2011, loan accruals amounting to TL 1.775 is not included in the above table (31 December 2010: TL 1.616).

(Currency – In thousands of Turkish lira)

36. 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 positions; 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 non-derivative financial liabilities by remaining contractual maturities:

2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Gross nominal outflow	Carrying amount
Liabilities							
Deposits	49.042.356	13.408.764	3.921.640	276.747	7.040	66.656.547	66.228.510
Obligations under repurchase agreements	4.259.708	333.153	344.220	--	--	4.937.081	4.904.532
Loans and advances from banks	872.650	533.167	3.623.917	1.691.123	2.213.622	8.934.479	8.355.579
Interbank money market borrowings	37.177	--	--	--	--	37.177	37.177
Debt securities issued	498.671	--	--	--	--	498.671	495.611
Total	**54.710.562**	**14.275.084**	**7.889.777**	**1.967.870**	**2.220.662**	**81.063.955**	**80.021.409**

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
Debt securities issued	--	--	--	--	--	--	--
Total	**45.153.385**	**11.326.668**	**4.267.058**	**1.264.298**	**1.717.140**	**63.728.549**	**62.956.557**

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Liquidity risk (continued)

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

2011	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	434.626	162.649	70.521	--	--	667.796
Forward contracts – sell	434.798	1.703.426	71.104	--	--	2.209.328
Swaps – buy	1.670.280	153.225	--	93.000	--	1.916.505
Swaps – sell	1.683.159	153.119	--	59.500	--	1.895.778
Credit default swap – buy	--	186.000	--	93.000	--	279.000
Credit default swap – sell	--	138.970	--	59.100	--	198.070
Forward precious metal – buy	--	1.500.223	--	--	--	1.500.223
Forward precious metal – sell	--	7.849	--	--	--	7.849
Money buy options	36.785	10.663	21.932	--	--	69.380
Money sell options	36.811	10.638	21.931	--	--	69.380
Total	**4.296.459**	**4.026.762**	**185.488**	**304.600**	**--**	**8.813.309**

2010	Up to one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Forwards contracts – buy	339.864	21.192	7.391	--	--	368.447
Forward contracts – sell	338.793	21.153	7.404	--	--	367.350
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	**3.279.758**	**1.135.905**	**514.010**	**562.570**	**--**	**5.492.243**

(Currency – In thousands of Turkish lira)

36. 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
2011								
Assets								
Cash on hand	486.615	--	--	--	--	--	--	486.615
Balances with and reserve deposits at Central Bank	705.343	1.758.650	2.813.389	1.479.154	44.311	271	--	6.801.118
Due from banks	160.668	1.337.294	74.056	--	--	--	--	1.572.018
Financial assets at fair value through profit or loss	13.694	10.326	38.935	6.037	76.305	5.586	--	150.883
Loans and advances(1)	279.619	4.186.597	4.748.500	18.311.583	24.939.550	3.547.983	--	56.013.832
Investments securities	4.965	475.874	1.000.661	1.587.783	15.102.660	5.267.364	23.152	23.462.459
Other assets	301.009	68.545	90.968	169.187	596.473	73.263	2.428.388	3.727.833
Total assets	**1.951.913**	**7.837.286**	**8.766.509**	**21.553.744**	**40.759.299**	**8.894.467**	**2.451.540**	**92.214.758**
Liabilities and equity								
Deposits from banks	3.040.932	3.707.469	64.100	37.665	130.671	--	--	6.980.837
Deposits from customers	10.281.894	31.895.565	13.168.394	3.755.619	139.163	7.038	--	59.247.673
Obligations under repurchase agreements	--	4.234.296	332.118	338.118	--	--	--	4.904.532
Loans and advances from banks	96.939	740.617	541.237	3.530.818	1.427.567	2.018.401	--	8.355.579
Interbank money market borrowings	--	37.177	--	--	--	--	--	37.177
Debt securities issued	--	495.611	--	--	--	--	--	495.611
Other liabilities(2)	1.601.430	642.442	470.031	360.827	265.825	210.547	8.642.247	12.193.349
Total liabilities and equity	**15.021.195**	**41.753.177**	**14.575.880**	**8.023.047**	**1.963.226**	**2.235.986**	**8.642.247**	**92.214.758**
Liquidity gap	**(13.069.282)**	**(33.915.891)**	**(5.809.371)**	**13.530.697**	**38.796.073**	**6.658.481**	**(6.190.707)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders' equity is presented in the "undistributed" column.

(Currency – In thousands of Turkish lira)

36. **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
2010								
Assets								
Cash on hand	379.297	--	--	--	--	--	--	379.297
Balances with and reserve deposits at Central Bank	490.565	1.431.186	1.895.188	437.200	15.311	273	545	4.270.268
Due from banks	99.623	1.129.128	42	--	--	--	--	1.228.793
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	**2.147.301**	**9.940.355**	**5.843.965**	**13.716.454**	**32.293.192**	**6.711.709**	**2.497.043**	**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
Loan and advances from banks	1.296.033	92.981	218.836	1.365.391	772.041	1.376.037	--	5.121.319
Interbank money market borrowings	125.768	--	--	--	--	--	--	125.768
Debt securities issued	--	--	--	--	--	--	--	--
Other liabilities(2)	982.853	276.129	118.804	265.845	215.417	161.313	8.173.101	10.193.462
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	**(8.934.397)**	**(25.953.955)**	**(5.211.764)**	**9.374.108**	**31.229.100**	**5.172.966**	**(5.676.058)**	**--**

(1) Non performing loans (net) are presented in other assets.
(2) Shareholders' equity is presented in the "undistributed" column.

36. 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)

36. 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		Effect on profit / loss		Effect on equity	
		2011	2010	2011	2010
USD	10% increase	3.634	(8.505)	3.634	(8.505)
EUR	10% increase	(20.018)	(11.184)	(20.018)	(11.184)
Other	10% increase	6.690	1.030	6.690	1.030

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

	EUR	USD	Other FC	Total
2011				
Assets				
Cash on hand	44.068	43.746	12.428	100.242
Balances with Central Bank	705.092	--	--	705.092
Reserve deposits at Central Bank	3.221.897	2.794	746.511	3.971.202
Due from banks	1.330.188	111.886	58.063	1.500.137
Financial assets at fair value through profit or loss	8.707	69.328	65	78.100
Loans and advances	7.293.948	10.324.264	120.235	17.738.447
Investment securities	1.692.604	1.918.922	44.769	3.656.295
Investment in equity- accounted investees	131.273	--	--	131.273
Property and equipment	--	--	22.334	22.334
Other assets	425.850	402.778	9.375	838.003
Total assets	**14.853.627**	**12.873.718**	**1.013.780**	**28.741.125**
Liabilities				
Deposits from banks	2.770.009	638.625	178.549	3.587.183
Deposits from customers	9.130.473	7.160.229	2.320.989	18.611.691
Obligations under repurchase agreements	139.070	708.860	--	847.930
Loan and advances from banks	4.244.383	2.329.052	1.600	6.575.035
Other liabilities	90.258	239.027	9.524	338.809
Total liabilities	**16.374.193**	**11.075.793**	**2.510.662**	**29.960.648**
Net on balance sheet position	**(1.520.566)**	**1.797.925**	**(1.496.882)**	**(1.219.523)**
Net off balance sheet position	**1.320.390**	**(1.761.588)**	**1.563.783**	**1.122.585**
Derivative financial assets	1.452.427	744.174	1.716.874	3.913.475
Derivative financial liabilities	132.037	2.505.762	153.091	2.790.890
Non-cash loans[1]	2.806.749	6.050.271	173.150	9.030.170

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

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Currency risk (continued)

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

	EUR	USD	Other FC	Total
2010				
Assets				
Cash on hand	29.962	29.286	3.958	63.206
Balances with Central Bank	491.046	--	--	491.046
Reserve deposits at Central Bank	1.310.066	1.948	650	1.312.664
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
Loans and advances	4.754.139	7.302.958	71.983	12.129.080
Investment securities	1.673.136	1.794.811	--	3.467.947
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
Deposits from customers	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.

36. 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:

The Bank; in terms of the scope of sensitivity analysis for trading accounts and banking accounts; used to apply standard method of shock earlier, however, in the current period reporting methods described below are used in order to make more accurate risk analysis.

As of the reporting date, any variations in the TL and foreign currency interest rates which affects the Bank’s trading accounts hence profit and loss, is measured by value at risk analysis. Parametric and historical simulation methods are carried out by using value at risk analysis. As of 31 December 2011 the effect of changes in the risk factors affecting trading accounts – considering 10 day retention time, and the 99% confidence interval – amounted to TL 117.331 (31 December 2010: TL 97.867).

The potential impact of interest rate shocks that may occur on the banking accounts is calculated through analysis of change in the economic value. In this context, TL and foreign currency yield curves are shifted upward in parallel and are applied to shock 200 basis points. As of 31 December 2011 loss that might occur in exchange for the banking accounts in result of economic shocks, amounted to TL 699.117. The main reason for that is change in fair value of fixed rate loans (31 December 2010: TL 818.070).

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity based on re-pricing 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
2011							
Assets							
Cash on hand	--	--	--	--	--	486.615	486.615
Balances with and reserve deposits at Central Bank	19.916	--	--	--	--	6.781.202	6.801.118
Due from banks	1.352.632	74.056	--	--	--	145.330	1.572.018
Financial assets at fair value through profit or loss	17.560	43.575	6.037	78.004	5.586	121	150.883
Loans and advances[(1)]	24.692.744	6.738.282	10.795.891	11.004.591	1.822.924	959.400	56.013.832
Investment securities	4.879.710	4.808.574	3.787.860	6.969.080	2.994.083	23.152	23.462.459
Other assets	111.872	51.486	168.936	566.486	106.328	2.722.725	3.727.833
Total assets	**31.074.434**	**11.715.973**	**14.758.724**	**18.618.161**	**4.928.921**	**11.118.545**	**92.214.758**
Liabilities and equity							
Deposits from banks	3.707.469	64.100	37.665	130.671	--	3.040.932	6.980.837
Deposits from customers	31.983.368	13.175.156	3.841.321	49.707	90	10.198.031	59.247.673
Obligations under repurchase agreements	4.234.296	332.118	338.118	--	--	--	4.904.532
Loans and advances from banks	2.009.608	2.443.210	1.737.918	688.020	130.578	1.346.245	8.355.579
Interbank money market borrowings	37.177	--	--	--	--	--	37.177
Debt securities issued	495.611	--	--	--	--	--	495.611
Other liabilities[(2)]	1.482.663	348.600	40.745	--	--	10.321.341	12.193.349
Total liabilities and equity	**43.950.192**	**16.363.184**	**5.995.767**	**868.398**	**130.668**	**24.906.549**	**92.214.758**
On balance sheet interest sensitivity gap-Long	--	--	8.762.957	17.749.763	4.798.253	--	31.310.973
On balance sheet interest sensitivity gap-Short	(12.875.758)	(4.647.211)	--	--	--	(13.788.004)	(31.310.973)
Off balance sheet interest sensitivity gap-Long	--	7.951	281.562	815	--	--	290.328
Off balance sheet interest sensitivity gap-Short	--	(7.951)	(141.532)	(815)	(59.100)	--	(209.398)
Total position	**(12.875.758)**	**(4.647.211)**	**8.902.987**	**17.749.763**	**4.739.153**	**(13.788.004)**	**80.930**

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

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

(Currency – In thousands of Turkish lira)

36. **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
2010							
Assets							
Cash on hand	--	--	--	--	--	379.297	379.297
Due from banks	1.129.128	42	--	--	--	99.623	1.228.793
Balances with and reserve deposits at Central Bank	--	--	--	--	--	4.270.268	4.270.268
Financial assets at fair value through profit or loss	894	28.064	27.007	25.512	8.510	--	89.987
Loans and advances(1)	14.931.731	6.601.889	9.898.339	10.147.610	1.664.774	758.921	44.003.264
Investment securities	4.549.420	4.797.473	2.361.934	6.227.783	2.294.585	20.216	20.251.411
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	1.072.743	1.830.161	711.700	93.338	115.650	1.297.727	5.121.319
Interbank money market borrowings	125.768	--	--	--	--	--	125.768
Debt securities issued	--	--	--	--	--	--	--
Other liabilities(2)	1.036.274	76.225	85.326	--	--	8.995.637	10.193.462
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) Shareholders’ equity is presented in the “non-interest bearing” column.

(Currency – In thousands of Turkish lira)

36. 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:

	2011	2010
Tier 1 capital	8.914.673	6.914.849
Tier 2 capital	381.942	441.271
Deductions from capital	(186.074)	(213.405)
Total regulatory capital	**9.110.541**	**7.142.715**
Risk-weighted assets	57.599.564	39.418.982
Value at market risk	1.990.125	1.514.638
Operational risk	6.211.069	5.212.748
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,85%	15,48%
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13,55%	14,98%

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	
	2011	**2010**	**2011**	**2010**
Financial assets				
Due from banks	1.572.018	1.228.793	1.572.018	1.228.793
Financial assets at fair value through profit or loss				
-Trading securities	*56.560*	*55.680*	*56.560*	*55.680*
-Derivative financial instruments	*94.323*	*34.307*	*94.323*	*34.307*
Loans and advances	56.013.832	44.003.264	54.005.602	43.982.362
Investment securities				
-Available-for-sale investment securities	*9.398.001*	*7.501.571*	*9.398.001*	*7.501.571*
-Held-to-maturity investment securities	*14.064.458*	*12.749.840*	*13.788.354*	*13.002.901*
Finance lease receivables	819.722	--	819.722	--
	82.018.914	**65.573.455**	**79.734.580**	**65.805.614**
Financial liabilities				
Deposits from banks	6.980.837	3.223.828	6.980.837	3.223.828
Deposits from customers	59.247.673	51.330.587	59.350.640	51.389.855
Obligations under repurchase agreements	4.904.532	3.155.055	4.904.532	3.155.055
Loans and advances from banks	8.355.579	5.121.319	7.922.441	5.104.498
Interbank money market borrowings	37.177	125.768	37.177	125.768
Derivative financial instruments	65.358	39.151	65.358	39.151
Debt securities issued	495.611	--	495.611	--
Finance lease payables	--	566	--	566
	80.086.767	**62.996.274**	**79.756.596**	**63.038.721**

36. Financial risk management (continued)

Fair value of financial instruments (continued)

Fair values of financial assets such as financial assets at fair value through profit or loss, available-for-sale investment securities and held-to-maturity investment securities that are traded in active markets are based on quoted market prices or dealer price quotations.

The Bank management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances, loans and advances from banks and deposits. These financial assets and liabilities include due from banks, finance lease receivables, obligations under repurchase agreements, interbank money market borrowings and debt securities issued that are of a contractual nature. The Bank management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

For the financial assets and liabilities such as loans and advances, loans and advances from banks, deposits and derivative financial instruments; valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates used in estimating discount rates and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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.

(Currency – In thousands of Turkish lira)

36. Financial risk management (continued)

Classification of fair value measurement (continued)

Classification requires using observable market data if possible.

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	47.996	100.790	2.097	150.883
-Government bonds	*32.848*	--	--	*32.848*
-Derivatives held-for-trading	--	*94.323*	--	*94.323*
-Other securities	*15.148*	*6.467*	*2.097*	*23.712*
Available-for-sale financial assets[1]	8.955.870	418.979	--	9.374.849
-Government bonds	*8.955.870*	*418.979*	--	*9.374.849*
Financial liabilities				
Financial liabilities at fair value through profit or loss	--	65.358	--	65.358
-Derivatives financial instruments	--	65.358	--	65.358

(1) TL 23.152 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 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]	7.433.291	48.064	--	7.481.355
-Government bonds	*7.433.291*	*48.064*	--	*7.481.355*
Financial liabilities				
Financial liabilities at fair value through profit or loss	--	39.151	--	39.151
-Derivatives financial instruments	--	*39.151*	--	*39.151*

(1) TL 20.216 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.

37. Subsequent events

Related to domestic debt securities issuance

Along with the domestic debt securities issuance of up to nominal value TL 3.000.000; second stage of domestic debt securities issuance is authorized by Capital Markets Board (CMB) at 17 January 2012 and is registrated in Ankara Commercial Registry at 18 January 2012. Second stage debt securities issuance amounted to TL 750.000, with a maturity of 175 days. Claims and registration are carried out by the Bank and Halk Yatırım Menkul Değerler AŞ at 23-24-25 January 2012.

Establishment of Halk Faktoring Anonim Şirketi

It is agreed on Bank's board of directors committee to establish a financial services company titled "Halk Faktoring Anonim Şirketi". The company will have a total paid-in capital of TL 20.000, with the Bank to invest TL 19.000 for a 95% and Halk Yatırım Menkul Değerler AŞ, Halk Finansal Kiralama AŞ, Halk Sigorta AŞ each to invest equally TL 250 for 1,25% shares.

Halk Hayat ve Emeklilik AŞ's having licence on engaging private pension plan activities

It has been approved with the T.R. Prime Ministry Undersecretariat of treasury numbered B.02.1 HZN.0.10.06.01.273.05 that Bank's subsidiary Halk Hayat ve Emeklilik AŞ could operate in private pension plan activities.

Explanations regarding the acquisition and assignation of Ziraat Banka AD, Skopje shares with Halk Banka AD, Skopje assignation

The Bank and T.C. Ziraat Bankası AŞ has agreed on acquisition and assignation of the all shares, assets, liabilities and branches of Ziraat Banka AD, Skopje; which operates in Macedonia. Transfer processes will be governed by Central Bank, and other governors in Macedonia. The process is expected to be completed before the end of 2012.

Explanations regarding to cancellation of investment allowance exception by Constitutional Court

The Article 5 of the Law no. 6009 "Law on the Amendment of the Income Tax Law and Certain Laws and Decree Laws" which was promulgated in the Official Gazette on 1 August 2010 regulated the amount of investment incentive to be benefited in computing the corporate tax base after the cancellation of the Article no.2 of the Law no. 5479. According to the Law no. 6009, the taxpayers were allowed to benefit from the investment incentive stemming from the periods before the promulgation of the Law no. 5479, up to 25% of the taxable income of the respective tax period. Such change is effective including the fiscal year ending on 31 December 2011.

However, on 17 February 2012, the Turkish Constitutional Court decided to cancel the Article 5 of the Law no. 6009 and the cancelation of the article was promulgated in the Official Gazette no. 28208 dated 18 February 2012. Accordingly, taxpayers are allowed to benefit from the investment incentive without any limitation.